BEST BUY CO INC

FORM 10-K
(Annual Report)

Filed 05/24/00 for the Period Ending 02/26/00

Address	7601 PENN AVE SOUTH RICHFIELD, MN 55423
Telephone	6122911000
CIK	0000764478
Symbol	BBY
SIC Code	5731 - Radio, Television, and Consumer Electronics Stores
Industry	Retail (Technology)
Sector	Services
Fiscal Year	02/03

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

/x/ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED FEBRUARY 26, 2000.**

OR

/ / **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 1-9595

BEST BUY CO., INC.

(Exact Name of Registrant as Specified in its Charter)

Minnesota (State or other jurisdiction of incorporation or organization)	**41-0907483** (I.R.S. Employer Identification No.)
7075 Flying Cloud Drive **Eden Prairie, Minnesota** (Address of principal executive offices)	**55344** (Zip Code)

Registrant's telephone number, including area code: **952-947-2000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.10 per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /x/ No / /

The aggregate market value of voting stock held by non-affiliates of the Registrant on April 29, 2000, was approximately $9,976,000,000. On that date, there were 206,476,410 shares of Common Stock issued and outstanding.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. / /

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Shareholders for the year ended February 26, 2000 ("Annual Report") are incorporated by reference into Part II.

Portions of the Registrant's Proxy Statement dated May 17, 2000 for the regular meeting of shareholders to be held June 22, 2000 ("Proxy Statement") are incorporated by reference into Part III.

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their companies. With the exception of historical information, the matters discussed in this Annual Report on Form 10-K are forward-looking statements and may be identified by the use of words such as "believe," "expect," "anticipate," "plan," "estimate," "intend" and "potential." Such statements reflect the current view of the Registrant with respect to future events and are subject to certain risks, uncertainties and assumptions. A variety of factors could cause the Registrant's actual results to differ materially from the anticipated results expressed in such forward-looking statements, including, among other things, general economic conditions, product availability, sales volumes, profit margins, and the impact of labor markets and new product introductions on the Registrant's overall profitability. Readers should refer to the Registrant's Current Report on Form 8-K filed on May 15, 1998, that describes additional important factors that could cause actual results to differ materially from those contemplated by the statements made in this Annual Report on Form 10-K.

PART I

ITEM 1. BUSINESS

General

Best Buy Co., Inc. (the "Company" or "Best Buy"), is the nation's largest volume specialty retailer of name-brand consumer electronics, home office equipment, entertainment software and appliances. The Company started in 1966 as an audio component systems retailer, and in the early 1980s, with the introduction of the videocassette recorder, expanded into video products. In 1983, the Company changed its marketing strategy to use mass-merchandising techniques for a wider variety of products, and began to operate its stores with a "superstore" format. In 1989, Best Buy dramatically changed its method of retailing by introducing its Concept II store format, a self-service, noncommissioned, discount-style sales environment designed to give the customer more control over the purchasing process. The Company determined that an increasing number of customers had become knowledgeable enough to select products without the assistance of a commissioned salesperson and preferred to make purchases in a more convenient and customer-friendly environment.

In fiscal 1995, the Company developed a strategy to further enhance its store format. The strategy, known as Concept III, incorporated a larger store format created to produce a more informative and exciting shopping experience for the customer. Through focus group interviews and other research, the Company determined that customers wanted more product information and a larger product selection. In order to meet these evolving consumer preferences, the Company developed an enhanced store format, which features more hands-on and interactive product demonstrations. In fiscal 1999, the Company introduced its Concept IV store format. This format features improved merchandising, signage and customer service, and was expected to better address consumers' needs as the consumer electronics industry, in particular, progresses into new digital products. Concept IV was designed to reinforce the Company's image as the destination for new technology in a fun, informative and no-pressure-shopping environment. With its innovative retail format, the Company is a national sales leader in all of its principal product categories except appliances, where it currently ranks third. In fiscal 2000, the Company introduced its small-market store format, developed to serve communities with generally less than 200,000 people. These 30,000 square foot stores offer the same product categories as larger stores, but have more flexible floor plans and product assortments tailored to their communities.

During fiscal 2000, the Company increased its store count by approximately 15%, with the addition of 47 new stores, including nine small-market stores and, as of February 26, 2000, was operating 357 stores in 39 states. The Company anticipates opening approximately 60 stores in fiscal 2001.

Business Strategy

The Company's business strategy is to offer consumers an enjoyable and convenient shopping experience while maximizing the Company's profitability. Best Buy believes it offers consumers meaningful advantages in store environment, product value, selection and service. An objective of this strategy has been to achieve a dominant market share in the markets Best Buy serves. The Company currently holds a leading, and in some cases a dominant, share in its mature markets. The Company's

current store format features interactive displays, and for certain product categories, a high-level of customer assistance, all designed to enhance the customer's shopping experience. As part of its overall strategy, the Company:

- Generally offers a retail format similar to a self-service discount store for many products that consumers are familiar with and provides a higher level of customer service and product information for more technically complex and integrated products.
- Provides a selection of brand name products comparable to retailers that specialize in the Company's principal product categories and seeks to ensure a high level of product availability for customers.
- Seeks to provide customers with the best product value available in the market area through active comparison shopping programs, daily price changes, lowest-price guarantees and special promotions, including interest-free financing and home delivery.
- Provides a variety of services not offered by certain competitors, including convenient financing programs, product delivery and installation, and post-sale services including repair and warranty services and computer upgrades.
- Locates stores at sites that are easily accessible from major highways and thoroughfares and seeks to create sufficient concentrations of stores in major markets to maximize the leverage on fixed costs including advertising and operations management.
- Controls costs and enhances operating efficiency by centrally controlling all buying, merchandising and distribution, and vertically integrating certain support functions such as advertising.

Best Buy's store format is a key component of its business strategy. The Company believes that because consumers are generally familiar with certain products the Company sells and are accustomed to discount shopping formats, they increasingly resist efforts to direct their choice of product and appreciate controlling the purchase decision. For products that are relatively easy for consumers to understand and purchase, the Company employs a self-service, discount-style store format, featuring easy-to-locate product groupings, emphasizing customer choice and product information. These products include entertainment software and less complex consumer electronics products such as VCRs and smaller-sized televisions. For other, more complex products such as personal computers, big-screen television sets, appliances, digital phones and digital cameras, the Company provides dedicated and specially trained sales assistance. Sales staff in these product categories help customers understand the features and benefits of new technology and can assist customers in the purchase of accessories and registration for service with providers.

Best Buy continuously evaluates the retail environment and regularly uses focus groups and customer surveys to assess customer preferences. Through these processes, Best Buy concluded that customers want access to more product information in order to be more confident about their buying decisions. Most stores contain a demonstration area for home theater systems, big-screen televisions and audio speaker areas. These demonstration areas allow customers to experience and compare product performance firsthand. Most of the stores also feature one or more "high-touch" sales areas where specially trained salespeople assist customers with more complex products such as digital cameras, digital phones, camcorders, digital broadcast satellite systems (DBS) and personal digital assistants. Best Buy believes that these demonstration and display areas further differentiate it from competing retailers and should also provide an advantage for the Company relative to competitors such as catalog and Internet retailers. In addition, all Best Buy stores feature a configure-to-order process for personal computers that enables computer buyers to tailor-order a computer system from such vendors as Compaq, Hewlett-Packard and Micron.

The Company's stores are in large, open buildings with high ceilings. Best Buy's stores average approximately 44,000 square feet. The stores feature interactive displays and skilled employee demonstrations; most stores feature large viewing areas for big-screen and projection televisions and interactive speaker environments. The Company expects to open approximately 60 new stores in fiscal 2001, including 12 small-market format stores.

The Company believes that its advertising strategy continues to contribute to its increasing market share and brand image. Best Buy spends approximately 3% of store sales on advertising, including the weekly distribution of approximately 40 million newspaper inserts. The Company is reimbursed by vendors for a substantial portion of advertising expenditures through cooperative advertising arrangements. The Company has vertically integrated advertising and promotion capabilities and operates its own in-house advertising agency. This capability allows the Company to respond rapidly to competitors in a cost-effective manner. In many of its markets, the Company is able to secure and deliver to its stores merchandise and to create, produce and run an advertisement all within a period of less than one week.

Print advertising generally consists of four-color weekly inserts, typically 28 to 32 pages, that emphasize a variety of product categories and feature an extensive name-brand selection with a wide range of price points. The Company also produces all of its television commercials, each with a specific marketing message. Television commercials account for about one-third of total advertising expenditures. The Company also utilizes a national brand image campaign to move Best Buy's image beyond that of a low-price specialty retailer to one that positions the Company as the destination for new technology products that enhance customers' time, whether leisure or work, and make leisure time more fun. The Company believes that building customer brand loyalty is a significant element in its business strategy.

Product service and repair are important aspects of Best Buy's brand strategy, providing the opportunity to differentiate itself from the retailers operating exclusively as bricks-and-mortar retailers or Internet retailers. The Company generally offers to service and repair all of the products it sells, with the exception of entertainment software, and has been designated by substantially all of its major suppliers as an authorized servicer. In addition, the Company makes its in-store technical support staff available to assist customers with the custom configuration of personal computers and peripheral products. The Company also delivers major appliances and large electronics products and installs car stereos, vehicle security systems and major appliances. In fiscal 2000, the Company began a multi-year project to expand and improve its service capabilities by undertaking efforts to improve the quality of service and leverage its Service, Retail and Marketing functions to provide value added services to the customer.

In fiscal 2000, the Company created BestBuy.com, Inc. ("BestBuy.com") its wholly-owned subsidiary and continued developing a comprehensive Internet service designed to offer products in all of the Company's principal product categories. Management expects to launch the new BestBuy.com business to the public in June 2000. The Company's Internet vision includes developing a fully integrated "clicks-and-mortar" strategy, becoming the market leader in providing entertainment and technology solutions to consumers via the Internet and developing interactive consumer relationships that create lifetime value. The "clicks-and-mortar" strategy will leverage the Company's existing nationwide store network with Best Buy's brand awareness, substantial advertising and promotional activities, warranty and repair capabilities, and supply chain, warehousing and logistics network. The strategy includes providing the consumer with a synchronized experience across all selling channels, whether the consumer is researching, purchasing, receiving or returning products, or obtaining entertainment. BestBuy.com intends to take full advantage of the Web's unique capabilities while focusing on retailing fundamentals. While e-commerce does not currently represent a significant portion of the Company's business, the Company believes the development of a comprehensive Internet business represents a significant growth opportunity. The Company believes it's fully integrated "clicks-and-mortar" strategy will also provide a competitive advantage over other Internet retailers.

During fiscal 2000, the Company and BestBuy.com formed several strategic alliances to provide better solutions for the Company's customers. Investments were made in Simplexity.com™ and etown.com™. Simplexity.com provides telecommunications service options by market, and etown.com, a leading online source of consumer electronics information, allows access to independent editorials and product information. Subsequent to year-end, the Company also finalized a comprehensive strategic alliance with Microsoft Corporation. The agreement with Microsoft encompasses significant co-marketing between the Microsoft Network of Internet Services (MSN™), BestBuy.com and Best Buy's retail stores via direct marketing and advertising inserts, among other things. Microsoft will provide technology support to Best Buy and BestBuy.com and will also support BestBuy.com with prominent placement across Microsoft properties, including MSNBC, the WebTV Network™, the

Expedia.com™ travel service, the MSN Hotmail™ Web-based e-mail service and the MSN eShop online shopping service. In connection with the alliance, Microsoft purchased approximately 3.9 million shares of Best Buy common stock for $200 million.

Product Selection and Merchandising

Best Buy provides a broad selection of name-brand models within each product line in order to provide customers with a meaningful assortment. The Company currently offers approximately 5,800 products, exclusive of entertainment software titles and accessories, in its four principal product categories. In addition, the Company offers a selection of accessories supporting its principal product categories.

The home office category, Best Buy's largest product category, includes personal computers and related peripheral equipment, telephones, digital and cellular phones, pagers, answering machines, fax machines, copiers and calculators. As of the fourth quarter of fiscal 2000, approximately half of the sales in this category were derived from sales of personal computers including desktops, notebooks and configure-to-order computers. The retail market for personal computers is promotional and competitive, with competition primarily from retail stores and factory-to-customer direct channels of distribution. The Company's operating results can be affected by significant changes in promotional activity, consumer demand, availability of personal computers and the timing of computer model transitions by manufacturers. The timing of significant new software releases can also impact sales of personal computers. The Company believes that it is well positioned to withstand competition in the retail market for personal computer products, traditionally low margin items, due to its experience in the market and its significantly improved ability to manage inventories in this category. The Company also believes that its broad product lines, including those that generate higher gross profit margins, and its relatively low cost structure contribute to its ability to compete in this category. In addition, the Company believes that the related services it offers, such as knowledgeable salespeople, in-store computer configuration, maintenance and upgrades, are distinct advantages compared to Internet discount and factory direct computer retailers. Changing technology and hardware requirements necessary to support new software, including online services, are expected to continue to be primary factors in the growth in sales of personal computers and related products in the future. Personal computer unit sales volume growth has been driven by technology improvements, the increasing popularity of the Internet and declining retail-selling prices. In fiscal 2000, Internet service provider rebate offers to new subscribers on the purchase of their personal computers further stimulated computer sales. While the sales of personal computer hardware generate relatively low gross profit margins, the Company's selling strategies have enabled it to generate higher total transaction profit margins through the sale of accessories and services that complete a home computer system. Although the number of computer manufacturers selling through retail distribution channels declined in fiscal 2000, Best Buy added vendors such as Emachine and Micron to its list of home office brand name products which already included brand names such as AT&T, Canon, Compaq, Epson, Fujitsu, Hewlett-Packard, Lexmark, Motorola, NEC, Nokia, Panasonic, Samsung, Sharp, Sony and Toshiba.

Best Buy's second largest product category is consumer electronics, consisting of video and audio equipment. Video products include television sets, DVD players, VCRs, camcorders and DBS systems. Audio products include audio components, audio systems, shelf systems, portable audio equipment, car stereos and security systems. The Company continues to expand its product selection of consumer electronics by offering higher-end products and components that have greater appeal to audio and video enthusiasts. In recent years, the introduction of digital audio players, digital television, DVD, minidiscs and DBS systems continues the migration of the consumer electronics category into digital technology. The replacement of existing analog technology with digital products represents a significant sales growth opportunity for the Company; although as prices drop, quantities increase and new technology becomes more affordable, the transition could impact sales of current products. To date, however, increasingly affordable digital consumer electronics products have contributed to the Company's sales growth. The Company sells consumer electronics with brand names such as Advent, Aiwa, Bose, Clarion, DIRECTV, Funai, JBL, JVC, Kenwood, KLH, Magnavox, Panasonic, RCA, Rockford Fosgate, Samsung, Sanyo, Sony, Technics, Toshiba, WebTV and Yamaha.

Best Buy's entertainment software category includes compact discs, DVD movies, pre-recorded videocassettes, computer software, and video game hardware and software. The Company is one of the

few large consumer electronics retailers that sell a broad selection of entertainment software in all of its stores. Best Buy customizes a portion of the entertainment software assortment for particular stores based upon the demographics of the market. Entertainment software sales are impacted by the strength of new releases. Video game hardware, video game software and computer software sales are also impacted by the development of new technology. The increase in sales of DVD players in fiscal 2000 and significant expansion in the number of movie titles available in the DVD format, as well as high demand for recorded music led to the Company's sales growth in the entertainment software category.

The major appliance category includes microwave ovens, washing machines, dryers, air conditioners, dishwashers, refrigerators, freezers, ranges and vacuum cleaners. This category includes brand names such as Amana, Bisell, Eureka, Fantom Technologies, Frigidaire, General Electric, GE Profile, Hoover, Hotpoint, Maytag, Panasonic, Roper, Royal Appliance, Samsung, Sanyo, Sharp, Tappan, Whirlpool and White-Westinghouse. Sales in this category are impacted by new housing activity. In addition, sales in the major appliance category have been favorably impacted by a decline in the number of smaller retailers selling major appliances. An increase in the large home improvement retailers entering the major appliance market could impact sales in the future.

In addition to products in its four main categories, the Company sells cameras and other photographic equipment and ready-to-assemble furniture designed for use with computer and audio/video equipment. Sales of new digital cameras have contributed to the growth in this category. The Company also sells performance service plans (PSPs) on behalf of an unrelated third party. These PSPs cover product repair and/or replacement for a specified period of time following the purchase of a product, extending and enhancing the manufacturer's warranty.

The following table shows the percentage of store sales from each of Best Buy's principal product lines for each of the last three years.

Fiscal Years Ended

	February 26, 2000	February 27, 1999	February 28, 1998
Home Office	35%	36%	38%
Consumer Electronics:			
Video	17	16	15
Audio	11	11	11
Entertainment Software	19	20	20
Appliances	8	8	9
Other(1)	10	9	7
Total	100%	100%	100%

(1) Includes, among other things, performance service plans, cameras and other photographic equipment, blank audio and video recording media, furniture and accessories.

Store Locations and Expansion

The Company's expansion strategy generally has been to enter major metropolitan areas with the simultaneous opening of several stores and then to expand into contiguous non-metropolitan markets. In fiscal 2000, the Company broadened its existing strategy and opened nine small-market stores, which were designed for communities of less than 200,000 people. As of February 26, 2000, approximately two-thirds of the Company's stores were in metropolitan markets.

The entry into a new market is preceded by a detailed market analysis, which includes a review of competitors, demographics and economic data. Best Buy's store location strategy enables it to increase the effectiveness of its advertising expenditures and to create a high level of consumer awareness. In addition, the clustering of stores allows the Company to maintain more effective management control and utilize its distribution facilities more efficiently. Currently, Best Buy stores cover approximately 55- to- 60% of the United States population and serve 43 of the 50 largest metropolitan markets.

When entering a major metropolitan market, the Company establishes a district office, service center and major appliance warehouse. Each new store requires working capital of approximately $4 million for merchandise inventory (net of vendor financing), leasehold improvements, fixtures and equipment. Pre-opening costs of approximately $600,000 per store, excluding advertising costs associated with the grand opening of a store, are incurred through hiring, relocating and training new employees, and in merchandising the store. These costs are expensed as incurred.

The Company opened 47 stores in fiscal 2000 including entry into the markets of Sacramento, San Diego and San Francisco, Calif.; Jacksonville and Tallahassee, Fla.; Albany and Rochester, NY.; and Richmond and Norfolk, Va. The Company expects to open approximately 60 stores in fiscal 2001, including entry into the densely populated metropolitan New York area and Portland, Oregon. Included in the approximately 60 stores scheduled to open in fiscal 2001 are approximately 12 small-market format stores. The Company also plans to remodel or relocate approximately 10 stores to larger facilities.

In May 1999, the Company opened a new distribution center in Dinuba, Calif., replacing its leased facility in Ontario, Calif. In April 2000, the Company began construction on a new 700,000 square foot distribution center in Dublin, Ga. that is expected to open in the second half of fiscal 2001. The Company believes with the addition of the new facility it has the necessary distribution capacity to support its fiscal 2001 expansion plans. Additionally, the Company plans to use third-party distributors for fulfillment of a portion of the merchandise sold via the Company's expanded Internet site.

The following table presents the number and location of stores operated by the Company at the end of each of the last three fiscal years and anticipated stores at fiscal 2001 year-end.

	Anticipated at Fiscal 2001 Year-End	Planned For Fiscal 2001	Number of Stores at Fiscal Year-End		
			2000	1999	1998

Alabama	1	—	1	1	1
Arizona	10	1	9	8	8
Arkansas	3	—	3	3	3
California	46	7	39	29	24
Colorado	9	1	8	8	8
Delaware	2	1	1	1	1
Florida	29	3	26	21	19
Georgia	13	1	12	10	10
Illinois	33	1	32	32	32
Indiana	9	1	8	8	8
Iowa	5	—	5	5	5
Kansas	5	—	5	5	5
Kentucky	3	—	3	2	2
Maine	2	1	1	1	—
Maryland	11	—	11	10	9
Massachusetts	9	2	7	4	—
Michigan	21	4	17	17	17
Minnesota	16	—	16	14	14
Mississippi	1	1	—	—	—
Missouri	10	1	9	9	10
Montana	2	—	2	—	—
Nebraska	3	—	3	3	3
Nevada	3	—	3	2	2
New Hampshire	5	—	5	3	—
New Jersey	9	5	4	4	4
New Mexico	2	1	1	1	1
New York	13	10	3	1	—
North Carolina	12	2	10	9	7
North Dakota	1	—	1	1	1
Ohio	22	2	20	19	19
Oklahoma	3	—	3	3	3
Oregon	4	4	—	—	—

Pennsylvania	14	3	11	10	9
Rhode Island	2	—	2	—	—
South Carolina	5	—	5	5	4
South Dakota	1	—	1	1	1
Tennessee	6	—	6	6	1
Texas	43	4	39	36	35
Virginia	14	2	12	7	7
Washington	3	2	1	—	—
Wisconsin	12	—	12	12	11
Total	417	60	357	311	284

Suppliers, Purchasing and Distribution

The Company's marketing strategy depends, in part, upon its ability to offer a broad selection of name brand products to its customers and is, therefore, dependent upon satisfactory and stable supplier relationships. In fiscal 2000, Best Buy's 20 largest suppliers accounted for over half of the merchandise purchased by the Company, with five suppliers, Compaq, Hewlett-Packard, IBM, Panasonic and Sony, representing approximately 30% of the Company's total purchases. The loss of or disruption in supply, including disruptions in supply due to manufacturers' product quality or component parts availability issues, from any one of these major suppliers could have a material adverse effect on the Company's sales. Although, later in fiscal 2000 IBM discontinued its sales of personal computers through retail channels, the Company believes it has adequately replaced this product through alternative sources. Higher than expected demand also places a strain on certain suppliers at times, resulting in suppliers limiting or temporarily discontinuing their supply of products to retailers, including the Company. Best Buy generally does not have long-term written contracts with its major suppliers and does not have any indication that any current suppliers will discontinue selling merchandise to the Company. The Company has not experienced significant difficulty in maintaining satisfactory sources of supply, and management expects that adequate sources of supply will continue to exist for the types of merchandise sold in its stores.

Best Buy's centralized marketing staff purchases substantially all of the Company's merchandise. The buying staff within the Company's

Marketing Department is responsible for product assortment, promotion planning and product pricing. An inventory management staff in the Marketing Department is responsible for overall product acquisition and inventory management, including allocations and replenishment of store inventory. Except for certain entertainment software, there are generally no agreements with suppliers for the return of unsold inventory. Merchandise remaining at the time of new product introduction is generally sold on a close-out basis and may be subject to a reduction in selling price to levels at or below the Company's cost.

The Company has made product availability to consumers a high priority and continues to make investments in facilities, personnel and systems to assure that its in-stock position will be among the highest in the industry. The Company utilizes an automatic replenishment system for restocking its stores. Replenishment of store inventories is based on inventory levels, historical and projected sales trends, promotions and seasonality. The Company utilizes an extensive merchandise planning and daily inventory monitoring system to manage inventory and increase inventory turns. The Company's strategic initiative to design and implement systems and practices to improve the Company's assortment planning, product sourcing and advertising effectiveness has resulted in significant benefits as demonstrated by recent increases in gross profit margins.

The majority of the Company's merchandise, except for major appliances, is shipped directly from manufacturers to the Company's distribution centers. In addition, the Company operates a dedicated distribution center for entertainment software in Minnesota. Major appliances are shipped to satellite warehouses in each of the Company's major markets. In order to meet release dates for selected entertainment software titles and certain computer products, and to improve inventory management, certain merchandise is shipped directly to the stores from manufacturers and distributors. The

Company is, however, dependent upon the distribution centers for inventory storage and shipment of most merchandise to its stores. The Company believes that its distribution centers can most effectively service stores within a 600- to 700- mile radius and that its current distribution centers, with the addition of Dublin, Ga., will accommodate the Company's expansion plans for the next several years. The Company plans to continue investing in new systems and material handling equipment to reduce labor costs and improve accuracy in filling orders.

Management Information Systems

Best Buy has developed proprietary software that provides daily information on sales, gross margins, and inventory levels by store and by stockkeeping unit. These systems allow the Company to compare current performance against historical performance and the current year's budget. Best Buy uses point-of-sale bar code scanning from which sales information is compiled at the end of each day. The Company uses Electronic Data Interchange (EDI) with selected suppliers for the more efficient transmittal of purchase orders, shipping notices and invoices. The Company believes the systems it has developed have the ability to continue to improve customer service, operational efficiency and management's ability to monitor critical performance indicators. Best Buy continuously assesses its information systems needs to increase efficiency, improve decision-making and support the Company's growth. Major components of the Company's systems development plan for fiscal 2001 include support of its e-commerce division, retail store and e-commerce integration initiatives, development of systems to support the Company's service operations and continued improvement in its supply chain and store systems. The Company also plans to initiate a project to replace its core financial, human resource and inventory management systems.

Store Operations

Best Buy has developed a standardized and detailed system for operating its stores called Standard Operating Platforms (SOPs). The system includes procedures for inventory management, transaction processing, customer relations, store administration and merchandise display. The Company's store operations are organized into two divisions. Each division is divided into regions and is under the supervision of a senior vice president who oversees store performance through several regional managers, each of whom has responsibility for a number of districts within the region. District managers monitor store operations closely and meet regularly with store managers to discuss SOPs, merchandising, new product introductions, sales promotions, customer loyalty programs, employee satisfaction surveys and store operating performance. Similar meetings are conducted at the corporate level with divisional and regional management. A senior vice president of retail operations has overall responsibility for retail store processing and operations including labor management. Each district also has a loss prevention manager, with product security personnel employed at each store to control inventory shrinkage. Advertising, pricing and inventory policies are controlled at corporate headquarters.

The Company's stores are open seven days and six evenings a week. A store is typically staffed by one manager, four or five assistant managers and an average staff ranging from 65 to 150 people, depending on store size. Approximately 60% of a store's staff, which includes product specialists and a support staff of cashiers and customer service and stock handling employees, is employed on a part-time basis. Store managers are paid a salary and have the opportunity to earn bonuses if their stores exceed sales and gross margin quotas, meet certain budget criteria in controlling expenses and achieve certain administrative goals.

The Company has an employee development department which provides managers with a variety of tools to teach employees the core skills they need to meet their performance objectives. In the stores, Sales, Inventory, Operations and Merchandising managers undergo comprehensive training in their specialty areas, which include store operations, selling, managerial, training and communications skills. The retail selling and sales support teams receive a thorough orientation to the Company's industry and its business objectives. Sales personnel are trained to ask specific questions of customers to determine their needs and to present products, accessories and services that meet those expressed needs. Stores hold monthly team meetings to review store performance, Company focus, and changes and modifications in operating procedures. Specialized product training is also conducted at these monthly meetings. The Company staffs store management positions with both personnel promoted from

within the stores and those recruited from outside of the Company. In connection with expansion into new markets, Best Buy recruits local management personnel who have valuable knowledge about the new market. The Company has a store management development program designed to help support the increased rate of store growth by developing and integrating new managers who have generally completed a year of training prior to assuming full management responsibility.

Credit Policy

Approximately one-third of store revenues are paid for by cash or check, with the remainder paid for by major credit cards or the Best Buy private-label credit card. The Company utilizes special financing offers to stimulate sales. Generally, these financing offers allow customers to purchase certain products with repayment terms typically ranging from 90 days to 18 months without a finance charge. The longer financing offers, generally those beyond six months, typically require minimum monthly payments to avoid the finance charge. The special financing offers are only provided to customers who qualify for Best Buy's private-label credit card. The private-label credit card allows these customers to obtain financing on purchases of merchandise at Best Buy stores through arrangements between the Company and unaffiliated third-party institutions with consumer credit programs. The Company is generally able to qualify a new customer for credit on the spot, typically in less than five minutes. Receivables from private-label credit card sales are sold, without recourse to the Company, to unaffiliated third-party institutions. The Company receives payment from these institutions within one to three days following the sale.

Competition

Consumer electronics retailers realized significant sales increases in fiscal 2000 driven by strong consumer spending, continued demand for personal computers and rapid consumer acceptance of new digital technology products such as DVD, digital phones and digital cameras. However, alternative channels of distribution such as Internet and factory direct shopping services are expanding. Retailing in each of the Company's product categories also can be highly competitive. Additionally while many retail stores have exited the market, new competition is emerging as evidenced by the entrance of large home improvement retailers into the major appliance market. Although these new channels or points of distribution are not yet creating significant competition for the Company, they could become significant over time. Management believes that the Company's own e-commerce initiative, coupled with product knowledge, brand imaging, expertise and services capabilities of its retail stores, will effectively position the Company to meet the increased competition from e-commerce and mail-order retailers.

More effective advertising, a more customer-focused product assortment, improved product in-stock levels and better customer service have contributed to market share gains over the past year. Management believes that its store format and brand positioning distinguish the Company from most of its competitors by positioning the Company as the destination for new technology in a fun, informative and no-pressure shopping environment. The Company competes by aggressively advertising and emphasizing a broad product assortment, low prices, financing alternatives and service.

The Company currently competes nationally against consumer electronics retailers such as Circuit City and RadioShack; computer superstores such as CompUSA; home office retailers such as Office Depot, Office Max and Staples; mass merchants such as Sears, Wal-Mart and Target; home improvement superstores such as Home Depot; and entertainment software superstores owned by Musicland and Tower Records. The Company also competes against independent dealers, regional chain discount stores, wholesale clubs, and mail-order and Internet retailers.

Employees

As of February 26, 2000, the Company had approximately 55,000 employees, of whom approximately 28,000 were part-time or seasonal employees. There are currently no collective bargaining agreements covering any of the Company's employees. The Company has not experienced a strike or work stoppage, and management believes that its employee relations are good.

ITEM 2. PROPERTIES

The Company's stores, most of which are leased, include sales space, inventory storage, management offices and employee areas. The leases provide for a fixed minimum rent and essentially all contain provisions of scheduled escalation dates and amounts. The terms of a majority of the leases including renewal options extend beyond the year 2020. At February 26, 2000, the Company owned nine of its operating retail store locations. Management expects to sell and lease back these properties in fiscal 2001.

As of February 26, 2000, the Company utilized over 3.4 million square feet of distribution facilities, including centers in Bloomington, Minn.; Ardmore, Okla.; Staunton, Va.; Dinuba, Calif.; Findlay, Ohio, and a dedicated distribution center for entertainment software in Edina, Minn. The Company also operated satellite warehouses for major appliances in its major markets. The Company opened a new distribution center in Dinuba, Calif. in May 1999 that replaced the former leased distribution center located in Ontario, Calif. In April 2000, the Company began construction on a new 700,000 square foot distribution center in Dublin, Ga., which is expected to be completed the second half of fiscal 2001.

The Company's principal corporate offices are in a 360,000 square-foot facility it owns in Eden Prairie, Minn. The Company also owns another facility, with approximately 180,000 square feet, in Eden Prairie, Minn. that houses its Information Technology Department. In addition to owning these two facilities, the Company also leases another 340,000 square feet of office space in close proximity to its main corporate office. In fiscal 2002, the Company expects to begin construction on a new corporate campus in Richfield, Minn. The new corporate facility, which will replace existing owned and leased facilities, is expected to be completed in fiscal 2003.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various legal proceedings arising during the normal course of conducting business. The resolution of those proceedings is not expected to have a material impact on the Company's financial condition.

The Executive Officers of the Registrant are as follows:

Name	Age	Position With Company	Years With the Company
Richard M. Schulze	59	Chairman, Chief Executive Officer and Director	33
Bradbury H. Anderson	50	President, Chief Operating Officer and Director	26
Allen U. Lenzmeier	56	Executive Vice President and Chief Financial Officer	15
Wade R. Fenn	41	Executive Vice President—Marketing	19
Gary L. Arnold	48	Senior Vice President—Merchandising	5
Nancy C. Bologna	47	Senior Vice President—Human Resources	1
Julie M. Engel	39	Senior Vice President—Advertising	18
Robert C. Fox	49	Senior Vice President—Finance and Treasurer	14
Kevin P. Freeland	42	Senior Vice President—Inventory Management	4
Marc D. Gordon	39	Senior Vice President—Information Systems and CIO	2
Susan S. Hoff	35	Senior Vice President—Corporate and Public Affairs	17
Wayne R. Inouye	47	Senior Vice President—Merchandising—Computers	4
Joseph M. Joyce	48	Senior Vice President—General Counsel	9
Michael P. Keskey	45	Senior Vice President—Sales	11
Michael A. Linton	44	Senior Vice President—Strategic Marketing	1
Michael London	51	Senior Vice President—General Merchandising	3
George Z. Lopuch	50	Senior Vice President—Corporate Strategic Planning	2
Michael W. Marolt	44	Senior Vice President—Loss Prevention	14
David S. Morrish	43	Senior Vice President—Merchandising—Computers	2
Joseph T. Pelano, Jr.	52	Senior Vice President—Operations	11
Lowell W. Peters	59	Senior Vice President—Services	2
Charles A. Scheiderer	49	Senior Vice President—Logistics	5
Philip J. Schoonover	40	Senior Vice President—Digital Technology Solutions	5
John C. Walden	40	Senior Vice President—E-Commerce	1
Kenneth R. Weller	51	Senior Vice President—Sales	6

Richard M. Schulze is a founder of the Company. He has served as an officer and director of the Company from its inception in 1966 and currently serves as its Chairman and Chief Executive Officer.

Bradbury H. Anderson has been the Company's President and Chief Operating Officer since April 1991. He has been employed in various other capacities with the Company since 1973, including Retail Salesperson, Store Manager and Sales Manager. Mr. Anderson has been a Director of the Company since 1986.

Allen U. Lenzmeier has been Executive Vice President and Chief Financial Officer since April 1991 after having served as Senior Vice President—Finance and Operations and Treasurer of the Company from 1986. Mr. Lenzmeier joined the Company in 1984 and has also served as Vice President—Finance and Operations and Treasurer.

Wade R. Fenn has been Executive Vice President—Marketing since August 1995, having served as a Senior Vice President—Sales since 1991 and a Regional Vice President of the Company from 1987. Mr. Fenn joined the Company in 1980 as a salesperson and has also been employed by the Company as a Store and District Manager.

Gary L. Arnold has been Senior Vice President—Merchandising since May 1998. Mr. Arnold joined the Company in 1994 as Merchandise Manager of Music and was promoted to Vice President in 1996.

Nancy C. Bologna has been Senior Vice President—Human Resources since May 1999. Ms. Bologna joined the Company in February 1999 as Vice President—Organizational Effectiveness. Prior to joining Best Buy, Ms. Bologna worked as an executive development consultant with KRW International, an executive development firm, and also as a clinical psychologist and administrator for Park Nicollet Clinic.

Julie M. Engel has been Senior Vice President—Advertising since April 1995. Ms. Engel joined the Company in July 1981 as Advertising Manager, was promoted to Advertising Director in 1984 and became Vice President—Advertising in April 1987.

Robert C. Fox has been Senior Vice President—Finance and Treasurer since April 1994, after having served as Vice President—Accounting since 1987 and Treasurer since 1993. Mr. Fox joined the Company in 1985 as Controller.

Kevin P. Freeland has been Senior Vice President—Inventory Management since 1997. Mr. Freeland joined the Company as Vice President—Inventory Management in 1995. Prior to joining Best Buy, Mr. Freeland spent more than eight years with Payless Shoe Source, where he held various positions in merchandise management, most recently as vice president of merchandise distribution.

Marc D. Gordon has been Senior Vice President—Information Systems and Chief Information Officer since he joined the Company in April 1998. Prior to joining Best Buy, Mr. Gordon had experience in the retail information systems area most recently for West Marine Products, a west coast-based specialty retailer/wholesaler of marine products. Other positions have included senior manager with Andersen Consulting, a principal with a Boston management consulting firm and vice president of information systems with the Timberland Company.

Susan S. Hoff has been Senior Vice President—Corporate and Public Affairs since April 2000. Ms. Hoff joined the Company in 1983 and has held positions as Manager, Director and Vice President—Corporate Communications and Public Relations before being promoted to her current position.

Wayne R. Inouye has been Senior Vice President—Merchandising since he joined the Company in September 1995. Prior to joining Best Buy, Mr. Inouye was with The Good Guys! for 10 years, most recently as vice president—merchandising.

Joseph M. Joyce has been Senior Vice President—General Counsel since April 2000, after having served as Vice President—Human Resources and General Counsel since joining the Company in 1991. Prior to joining Best Buy, Mr. Joyce served 18 years with Tonka Corporation, holding positions ranging from general accountant to vice president, secretary and general counsel.

Michael P. Keskey has been Senior Vice President—Sales since April 1997, after having served as Vice President—Sales since 1996. Mr. Keskey joined the Company in 1988 and has held positions as a Store Manager, District Manager and Regional Manager.

Michael A. Linton has been Senior Vice President—Strategic Marketing since he joined the Company in January 1999. Prior to joining Best Buy, Mr. Linton served as vice president of marketing at Remington Products Corporation and as vice president and general manager of a product category at James River Corporation.

Michael London has been a Senior Vice President since May 1998 and currently serves as Senior Vice President—General Merchandising. Mr. London joined the Company in July 1996 as Vice President—General Merchandise. Prior to joining Best Buy, Mr. London served as senior vice president of retail and commercial sales for Nordic Track and executive vice president for Central Tractor Farm & Country. Prior to that, Mr. London spent 22 years with Lechmere, most recently as senior vice president—general marketing manager.

George Z. Lopuch has been Senior Vice President—Corporate Strategic Planning since he joined the Company in March 1998. Mr. Lopuch previously served as senior vice president of corporate strategic planning and research at SuperValu, Inc.

Michael W. Marolt has been Senior Vice President—Loss Prevention since April 2000. Mr. Marolt joined the Company in 1985 and has held positions as Manager, Director and Vice President of Loss Prevention.

David S. Morrish has been Senior Vice President—Merchandising—Computers since December 1999, after having served as Vice President—Merchandising since joining Best Buy in 1998. Prior to joining the Company, Mr. Morrish was vice president and general merchandise manager with Sears Canada, Inc. for 19 years.

Joseph T. Pelano, Jr. has been Senior Vice President—Operations since April 1997, having served as Vice President—Retail Store Operations since 1996. Mr. Pelano joined the Company in 1989 as Regional Operations Manager.

Lowell W. Peters has been Senior Vice President—Services since he joined the Company in September 1997. Prior to joining Best Buy, Mr. Peters spent 34 years with Sears, where he held various positions in their service organization, most recently as vice president of parts, product services.

Charles A. Scheiderer has been Senior Vice President—Logistics since April 1998, having served as Vice President—Distribution and Logistics since July 1997 and as General Manager of Distribution since 1994.

Philip J. Schoonover has been Senior Vice President—Merchandising since 1996. Prior to joining the Company in May 1995, Mr. Schoonover was the executive vice president for TOPS Appliance City.

John C. Walden joined the Company in May 1999 and currently serves as Senior Vice President—E-Commerce. Mr. Walden also serves as President of BestBuy.com, Inc. Prior to joining the Company, he most recently served as chief operating officer of Peapod, Inc., an Internet retailer of groceries. Mr. Walden has also held executive positions with Ameritech Corporation and Storage Technology Corporation.

Kenneth R. Weller has been Senior Vice President—Sales since joining the Company in June 1993. Prior to joining the Company, Mr. Weller was vice president of sales with The Good Guys!, a San Francisco-based consumer electronics retailer where he had worked from 1986 to 1993.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information set forth under the caption "Common Stock Prices" on page 28 of the Annual Report is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The information set forth under the caption "10-Year Financial Highlights" on pages 18 and 19 of the Annual Report for the years 1996 through 2000 is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The information set forth under the caption "Management's Discussion and Analysis of Results of Operations and Financial Condition" on pages 20 through 29 of the Annual Report is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's operations are not currently subject to market risks for interest rates, foreign currency rates, commodity prices or other market price risks of a material nature.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this Item, listed below, are contained in the Annual Report on the pages indicated below, and are expressly incorporated herein by this reference.

	Page No.
Consolidated balance sheets as of February 26, 2000 and February 27, 1999	30-31
For the fiscal years ended February 26, 2000, February 27, 1999 and February 28, 1998	
Consolidated statements of earnings	32
Consolidated statements of cash flows	33
Consolidated statements of changes in shareholders' equity	34
Independent auditor's report	35
Notes to consolidated financial statements	36-45

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information set forth under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Nominees and Directors" on pages 5 through 9 of the Proxy Statement is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the caption "Executive Compensation" on pages 10 through 18 of the Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" on pages 5 through 7 of the Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information set forth under the captions "Nominees and Directors" and "Certain Transactions" on pages 8 and 9 of the Proxy Statement is incorporated herein by reference.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)

The following documents are filed as part of this report:

1. Financial Statements:

All financial statements of the Registrant as set forth under Item 8 of this Report.

2. Financial Statement Schedules:

No schedules have been included since they are either not applicable or the information is included elsewhere in this Report.

3. Exhibits:

Number	Description	Method of Filing
3.1	Amended and Restated Articles of Incorporation, as amended	(3)
3.2	Amended and Restated By-Laws, as amended	(2,4,5,7)
4.1	Credit Agreement with US Bank National Association dated August 9, 1999	(10)
10.1	1987 Employee Non-Qualified Stock Option Plan, as amended	(12)
10.2	1987 Directors' Non-Qualified Stock Option Plan, as amended	(13)
10.3	Best Buy Co., Inc. Deferred Compensation Plan, as amended	(1)
10.4	Resolutions of the Board of Directors adopting the EVA® Incentive Program for senior officers	(8)
10.5	1997 Employee Non-Qualified Stock Option Plan, as amended	(11)
10.6	1997 Directors' Non-Qualified Stock Option Plan, as amended	(14)
10.7	1994 Full-Time Employee Non-Qualified Stock Option Plan, as amended	(13)
13.1	2000 Annual Report to Shareholders	(1)
21.1	Subsidiaries of the Registrant	(1)
23.1	Consent of Ernst & Young LLP	(1)
27.1	2000 Fiscal Year End Financial Data Schedule	(1)

(1) Document is filed herewith.

(2) Exhibit so marked was filed with the Securities and Exchange Commission on May 23, 1995, as an exhibit to the Form 10-K of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(3) Exhibit so marked was filed with the Securities and Exchange Commission on May 20, 1994, as an exhibit to the Form 10-K of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(4) Exhibit so marked was filed with the Securities and Exchange Commission on November 12, 1991, as an exhibit to the Registration Statement on Form S-3 (Registration No. 33-43065) of Best Buy Co., Inc., and is incorporated herein by reference and made a part of hereof.

(5) Exhibit so marked was filed with the Securities and Exchange Commission on January 13, 1992, as an exhibit to Form 10-Q of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(6) Exhibit so marked was filed with the Securities and Exchange Commission on October 12, 1992, as an exhibit to Form 10-Q of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(7) Exhibit so marked was filed with the Securities and Exchange Commission on May 28, 1997, as an exhibit to the Form 10-K of Best

Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(8) Exhibit so marked was filed with the Securities and Exchange Commission on April 29, 1999, as an exhibit to the preliminary Proxy Statement of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(9) Exhibit so marked was filed on April 3, 1998, as an exhibit to the Registration Statement on Form S-8 (Registration No. 333-49371) of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(10) Exhibit so marked was filed with the Securities and Exchange Commission on October 12, 1999, as an exhibit to Form 10-Q of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(11) Exhibit so marked was filed on August 20, 1998, as an exhibit to the Registration Statement on Form S-8 (Registration No. 333-61897) of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(12) Exhibit so marked was filed with Securities and Exchange Commission on May 29, 1996, as an exhibit to the Form 10-K of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(13) Exhibit so marked was filed with Securities and Exchange Commission on May 27, 1999, as an exhibit to the Form 10-K of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

(14) Exhibit so marked was filed with Securities and Exchange Commission on January 11, 2000, as an exhibit to the Form 10-Q of Best Buy Co., Inc., and is incorporated herein by reference and made a part hereof.

Pursuant to Item 601(b)(4)(iii) of Regulation S-K under the Securities Act of 1933, the Registrant has not filed as exhibits to the Form 10-K certain instruments with respect to long-term debt under which the amount of securities authorized does not exceed 10% of the total assets of the Registrant. The Registrant hereby agrees to furnish copies of all such instruments to the Commission upon request.

(b) Reports on Form 8-K:

Announcement of the strategic alliance between the Company and Microsoft Corporation was filed on December 20, 1999.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

BEST BUY CO., INC.
(Registrant)

By: /s/ RICHARD M. SCHULZE

Chairman and Chief Executive Officer

Dated: May 24, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on May 24, 2000.

/s/ RICHARD M. SCHULZE Richard M. Schulze	Chairman, Chief Executive Officer and Director (principal executive officer)
/s/ BRADBURY H. ANDERSON Bradbury H. Anderson	President, Chief Operating Officer and Director
/s/ ALLEN U. LENZMEIER Allen U. Lenzmeier	Executive Vice President and Chief Financial Officer (principal financial officer)
/s/ ROBERT C. FOX Robert C. Fox	Senior Vice President—Finance and Treasurer (principal accounting officer)
/s/ ROBERT T. BLANCHARD Robert T. Blanchard	Director
/s/ KATHY HIGGINS VICTOR Kathy Higgins Victor	Director
/s/ ELLIOT S. KAPLAN Elliot S. Kaplan	Director
Mark C. Thompson	Director
/s/ FRANK D. TRESTMAN Frank D. Trestman	Director
Hatim A. Tyabji	Director
James C. Wetherbe	Director

QuickLinks

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Best Buy Co., Inc.
Second Amended and Restated
Deferred Compensation Plan
Master Plan Document

Effective April 1, 1998
Amended and Restated Effective July 1, 1999

BEST BUY CO., INC.
SECOND AMENDED AND RESTATED
DEFERRED COMPENSATION PLAN

Effective April 1, 1998
Amended and Restated Effective July 1, 1999
Purpose

The purpose of this Plan is to provide specified benefits to a select group of management and highly compensated Employees and Directors who contribute materially to the continued growth, development and future business success of Best Buy Co., Inc., a Minnesota corporation, and its subsidiaries. This Plan shall be unfunded for tax purposes and for purposes of Title I of ERISA.

The Plan was initially adopted effective as of April 1, 1998. The Plan was amended and restated effective October 1, 1998 to (i) eliminate the ability of a Participant to elect to defer Qualifying Gain from the exercise of an Eligible Stock Option, (ii) modify the vesting schedule applicable to a Participant's Company Matching Account to be consistent with the vesting schedule applicable to the Company Retirement Savings Plan, retroactive to April 1, 1998, (iii) increase the maximum percentage of Base Annual Salary which may be deferred effective as of January 1, 1999, and (iv) make other clarifying modifications. The Plan was subsequently amended and restated effective July 1, 1999 to (i) allow Plan participants to change their investment elections monthly rather than quarterly, (ii) to reflect changes to the Measurement Funds, and (iii) to waive the deferral requirement for any short-term disability benefits received by a Participant under any short-term disability plan maintained by the Participant's Employer.

ARTICLE 1
Definitions

For purposes of this Plan, unless otherwise clearly apparent from the context, the following phrases or terms shall have the following indicated meanings:

1.1 "Account Balance" shall mean, with respect to a Participant, a credit on the records of the Company equal to the sum of (i) the Deferral Account balance, (ii) the vested Company Contribution Account balance, (iii) the vested Company Matching Account balance and (iv) the Stock Option Account balance. The Account Balance, and each other specified account balance, shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to this Plan.

1.2 "Annual Deferral Amount" shall mean that portion of a Participant's Base Annual Salary, Bonus and Directors Fees that a Participant elects to have, and is deferred, in accordance with Article 3, for any one Plan Year. In the event of a Participant's Retirement, Disability (if deferrals cease in accordance with Section 8.1), death or a Termination of Employment prior to the end of a Plan Year, such year's Annual Deferral Amount shall be the actual amount withheld prior to such event.

1.3 "Annual Stock Option Amount" shall mean, with respect to a Participant for any one Plan Year, the amount of Qualifying Gains deferred on Eligible Stock Option exercise in accordance with Section 3.7 of this Plan, calculated using the closing price of Stock as of the end of the business day of such Eligible Stock Option exercise.

1.4 "Base Annual Salary" shall mean the annual cash compensation relating to services performed during any calendar year, whether or not paid in such calendar year or included on the Federal Income Tax Form W-2 for such calendar year, excluding bonuses, commissions, overtime, fringe benefits, stock options, relocation expenses, incentive payments, non-monetary awards, directors fees and other fees, automobile and other allowances paid to a Participant for employment services rendered (whether or not such allowances are included in the Employee's gross income). Base Annual Salary shall be calculated before reduction for compensation voluntarily deferred or contributed by the Participant pursuant to all qualified or non-qualified

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plans of any Employer and shall be calculated to include amounts not otherwise included in the Participant's gross income under Code Sections 125, 402(e)(3), 402(h), or 403(b) pursuant to plans established by any Employer; provided, however, that all such amounts will be included in compensation only to the extent that, had there been no such plan, the amount would have been payable in cash to the Employee.

1.5 "Beneficiary" shall mean one or more persons, trusts, estates or other entities, designated in accordance with Article 9, that are entitled to receive benefits under this Plan upon the death of a Participant.

1.6 "Beneficiary Designation Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to designate one or more Beneficiaries.

1.7 "Board" shall mean the board of directors of the Company.

1.8 "Bonus" shall mean any compensation, in addition to Base Annual Salary relating to services performed during any calendar year, whether or not paid in such calendar year or included on the Federal Income Tax Form W-2 for such calendar year, payable to a Participant as an Employee under any Employer's bonus and cash incentive plans, excluding stock options.

1.9 "Change in Control" shall mean the first to occur of any of the following events:

(a) Any "person" (as that term is used in Section 13 and 14(d)(2) of the Securities Exchange Act of 1934 ("Exchange Act")) becomes the beneficial owner (as that term is used in Section 13(d) of the Exchange Act), directly or indirectly, of 50% or more of the Company's capital stock entitled to vote in the election of directors;

(b) During any period of not more than two consecutive years, not including any period prior to the adoption of this Plan, individuals who at the beginning of such period constitute the board of directors of the Company, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clause (a), (c), (d) or (e) of this Section 1.9) whose election by the board of directors or nomination for election by the Company's stockholders was approved by a vote of at least three-fourths (3/4ths) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof;

(c) The shareholders of the Company approve any consolidation or merger of the Company, other than a consolidation or merger of the Company in which the holders of the common stock of the Company immediately prior to the consolidation or merger hold more than 50% of the common stock of the surviving corporation immediately after the consolidation or merger;

(d) The shareholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; or

(e) The shareholders of the Company approve the sale or transfer of all or substantially all of the assets of the Company to parties that are not within a "controlled group of corporations" (as defined in Code Section 1563) in which the Company is a member.

1.10 "Claimant" shall have the meaning set forth in Section 14.1.

1.11 "Code" shall mean the Internal Revenue Code of 1986, as it may be amended from time to time.

1.12 "Committee" shall mean the committee described in Article 12.

1.13 "Company" shall mean Best Buy Co., Inc., a Minnesota corporation, and any successor to all or substantially all of the Company's assets or business.

1.14 "Company Contribution Account" shall mean (i) the sum of the Participant's Company Contribution Amounts, plus or minus (ii) amounts credited or debited in accordance with all the applicable crediting and debiting provisions of this Plan that relate to the Participant's Company

Contribution Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Company Contribution Account.

1.15 "Company Contribution Amount" shall mean, for any one Plan Year, the amount determined in accordance with Section 3.5.

1.16 "Company Matching Account" shall mean (i) the sum of all of a Participant's Company Matching Amounts, plus or minus (ii) amounts credited or debited in accordance with all the applicable crediting and debiting provisions of this Plan that relate to the Participant's Company Matching Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Company Matching Account.

1.17 "Company Matching Amount" for any one Plan Year shall be the amount determined in accordance with Section 3.6.

1.18 "Company Stock Fund" shall mean a measurement fund which tracks the performance of the Stock, including any dividends declared on the Stock.

1.19 "Company Stock Option Deferral Trust" shall mean one or more trusts established pursuant to that certain Best Buy Co., Inc. Stock Option Deferral Trust Agreement, dated as of April 1, 1998 between the Company and the trustee named therein, as amended from time to time.

1.20 "Deduction Limitation" shall mean the following described limitation on a benefit that may otherwise be distributable pursuant to the provisions of this Plan. Except as otherwise provided, this limitation shall be applied to all distributions that are "subject to the Deduction Limitation" under this Plan. If the Company determines in good faith prior to a Change in Control that there is a reasonable likelihood that any compensation paid to a Participant for a taxable year of the Employer would not be deductible by the Employer solely by reason of the limitation under Code Section 162(m), then to the extent deemed necessary by the Company to ensure that the entire amount of any distribution to the Participant pursuant to this Plan prior to the Change in Control is deductible, the Company may defer all or any portion of a distribution under this Plan. Any amounts deferred pursuant to this limitation shall continue to be credited/debited with additional amounts in accordance with Section 3.11 below, even if such amount is being paid out in installments. The amounts so deferred and amounts credited thereon shall be distributed to the Participant or his or her Beneficiary (in the event of the Participant's death) at the earliest possible date, as determined by the Company in good faith, on which the deductibility of compensation paid or payable to the Participant for the taxable year of the Employer during which the distribution is made will not be limited by Section 162(m), or if earlier, the effective date of a Change in Control. Notwithstanding anything to the contrary in this Plan, the Deduction Limitation shall not apply to any distributions made after a Change in Control.

1.21 "Deferral Account" shall mean (i) the sum of all of a Participant's Annual Deferral Amounts, plus or minus (ii) amounts credited or debited in accordance with all the applicable crediting and debiting provisions of this Plan that relate to the Participant's Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to his or her Deferral Account.

1.22 "Director" shall mean any member of the board of directors of any Employer.

1.23 "Directors Fees" shall mean the annual fees paid by any Employer, including retainer fees and meetings fees, as compensation for serving on the board of directors.

1.24 "Disability" shall mean a period of disability during which a Participant qualifies for permanent disability benefits under the Participant's Employer's long-term disability plan, or, if a Participant does not participate in such a plan, a period of disability during which the Participant would have qualified for permanent disability benefits under such a plan had the Participant been a participant in a plan, as determined in the sole discretion of the Committee. If the Participant's Employer does not sponsor such a plan, or discontinues to sponsor such a plan, Disability shall be determined by the Committee in its sole discretion.

1.25 "Disability Benefit" shall mean the benefit set forth in Article 8.

1.26 "Election Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to make an election under the Plan.

1.27 "Eligible Stock Option" shall mean one or more non-qualified stock option(s) granted under a plan or arrangement of any Employer permitting a Participant under this Plan to defer gain with respect to such option.

1.28 "Employee" shall mean a person who is an employee of any Employer.

1.29 "Employer(s)" shall mean the Company and/or any of its subsidiaries (now in existence or hereafter formed or acquired) whose Employees and/or Directors have been selected by the Board to participate in the Plan.

1.30 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

1.31 "First Plan Year" shall mean the period beginning April 1, 1998 and ending December 31, 1998.

1.32 "401(k) Plan" shall be that certain Best Buy Retirement Savings Plan, dated June 1, 1995 adopted by the Company, as it may be amended from time to time.

1.33 "In-Service Distribution" shall mean the payout set forth in Section 4.1.

1.34 "Master Trust" shall mean one or more trusts established pursuant to that certain Master Trust Agreement, dated as of April 1, 1998 between the Company and the trustee named therein, as amended from time to time.

1.35 "Participant" shall mean any Employee or Director (i) who is selected to participate in the Plan, (ii) who elects to participate in the Plan, (iii) who signs a Plan Agreement, an Election Form and a Beneficiary Designation Form, (iv) whose signed Plan Agreement, Election Form and Beneficiary Designation Form are accepted by the Committee, (v) who commences participation in the Plan, and (vi) whose Plan Agreement has not terminated. A spouse or former spouse of a Participant shall not be treated as a Participant in the Plan or have an Account Balance under the Plan, even if he or she has an interest in the Participant's benefits under the Plan as a result of applicable law or property settlements resulting from legal separation or divorce.

1.36 "Plan" shall mean the Company's Deferred Compensation Plan, which shall be evidenced by this instrument and by each Plan Agreement, as they may be amended from time to time.

1.37 "Plan Agreement" shall mean a written agreement, as may be amended from time to time, which is entered into by and among the Company, an Employer (if different from the Company) and a Participant. Each Plan Agreement executed by a Participant, the Participant's Employer and the Company shall provide for the entire benefit to which such Participant is entitled under the Plan; should there be more than one Plan Agreement, the Plan Agreement bearing the latest date of acceptance by the Company shall supersede all previous Plan Agreements in their entirety and shall govern such entitlement. The terms of any Plan Agreement may be different for any Participant, and any Plan Agreement may provide additional benefits not set forth in the Plan or limit the benefits otherwise provided under the Plan; provided, however, that any such additional benefits or benefit limitations must be agreed to by the Company, the Employer and the Participant.

1.38 "Plan Year" shall, except for the First Plan Year, mean a period beginning on January 1 of each calendar year and continuing through December 31 of such calendar year.

1.39 "Pre-Retirement Survivor Benefit" shall mean the benefit set forth in Article 6.

1.40 "Qualifying Gain" shall mean the value accrued upon exercise of an Eligible Stock Option (i) using a Stock-for-Stock payment method and (ii) having an aggregate fair market value in excess of the total Stock purchase price necessary to exercise the option under the Plan. In other words, the Qualifying Gain upon exercise of an Eligible Stock Option equals the total market value of the shares (or share equivalent units) acquired minus the total stock purchase price. For example, assume a Participant elects to defer the Qualifying Gain accrued upon exercise of an Eligible Stock Option to purchase 2000 shares of Stock at an exercise price of $20 per share, when Stock has a current fair market value of $25 per share. Using the Stock-for-Stock payment method, the Participant would deliver or be deemed to deliver 1600 shares of Stock (worth $40,000), which the Participant has held for a minimum of six months, to exercise the Eligible Stock Option and receive or be deemed to receive, in return, 1600 shares of Stock plus a Qualifying Gain (in this case, in the form of an unfunded and unsecured promise to pay money or property in the future) equal to $10,000 (i.e., the current value of the remaining 400 shares of Stock).

1.41 "Quarterly Installment Method" shall be a quarterly installment payment over the number of quarters selected by the Participant in accordance with this Plan, calculated as follows: The Account Balance of the Participant shall be calculated as of the close of business on the last business day of the quarter. The quarterly installment shall be calculated by multiplying this balance by a fraction, the numerator of which is one, and the denominator of which is the remaining number of quarterly payments due the Participant. By way of example, if the Participant elects a 40 quarter Annual Installment Method, the first payment shall be 1/40th of the Account Balance, calculated as described in this definition. The following quarter, the payment shall be 1/39th of the Account Balance, calculated as described in this definition. Each quarterly installment shall be paid on or as soon as practicable after the last business day of the applicable quarter. Unless the Committee determines otherwise, quarterly installment payments shall be drawn on a pro-rata basis from each of the applicable Measurement Funds used to determine amounts to be credited or debited to the Participant's Account Balance pursuant to Section 3.11 below.

1.42 "Retirement", "Retire(s)" or "Retired" shall mean, with respect to an Employee, severance from employment from all Employers for any reason other than a leave of absence, death or Disability on or after the attainment of age sixty (60); and shall mean with respect to a Director who is not an Employee, severance of his or her directorships with all Employers on or after the attainment of age seventy (70). If a Participant is both an Employee and a Director, Retirement shall not occur until he or she Retires as both an Employee and a Director, which Retirement shall be deemed to be a Retirement as a Director; provided, however, that such a Participant may elect, at least five years prior to Retirement and in accordance with the policies and procedures established by the Committee, to Retire for purposes of this Plan at the time he or she Retires as an Employee, which Retirement shall be deemed to be a Retirement as an Employee.

1.43 "Retirement Benefit" shall mean the benefit set forth in Article 5.

1.44 "Stock" shall mean Best Buy Co., Inc. common stock, $0.10 par value, or any other equity securities of the Company designated by the Committee.

1.45 "Stock Option Account" shall mean the sum of (i) the Participant's Annual Stock Option Amounts, plus or minus (ii) amounts credited or debited in accordance with all the applicable crediting and debiting provisions of this Plan that relate to the Participant's Stock Option Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Stock Option Account.

1.46 "Stock Option Amount" shall mean, for any Eligible Stock Option, the amount of Qualifying Gains deferred in accordance with Section 3.7 of this Plan, calculated using the closing price of Stock as of the end of the business day of exercise of such Eligible Stock Option.

1.47 "Subsidiary Stock Option Deferral Trust" shall mean one or more trusts established pursuant to that certain Best Buy Co., Inc. Stock Option Deferral Trust Agreement for Best Buy Stores, L.P. Employees, dated as of April 1, 1998, as amended from time to time, and any other trust established by a subsidiary of the Company to hold Stock Option Amounts of Employees and Directors of such subsidiary.

1.48 "Termination Benefit" shall mean the benefit set forth in Article 7.

1.49 "Termination of Employment" shall mean the severing of employment with all Employers, or service as a Director of all Employers, voluntarily or involuntarily, for any reason other than Retirement, Disability, death or an authorized leave of absence. If a Participant is both an Employee and a Director, a Termination of Employment shall occur only upon the termination of the last position held; provided, however, that such a Participant may elect, at least five years before cessation of employment with all Employers and in accordance with the policies and procedures established by the Committee, to be treated for purposes of this Plan as having experienced a Termination of Employment at the time he or she ceases employment with all Employers as an Employee.

1.50 "Trusts" shall mean the Master Trust, the Company Stock Option Deferral Trust, and the Subsidiary Stock Option Deferral Trust (s).

1.51 "Unforeseeable Financial Emergency" shall mean an unanticipated emergency that is caused by an event beyond the control of the Participant that would result in severe financial hardship to the Participant resulting from (i) a sudden and unexpected illness or accident of the Participant or a dependent of the Participant, (ii) a loss of the Participant's property due to casualty, or (iii) such other extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, all as determined in the sole discretion of the Committee.

1.52 "Years of Service" shall mean the total number of years in which a Participant has been employed by one or more Employers, as defined in Article IV of the 401(k) Plan.

ARTICLE 2
Selection, Enrollment, Eligibility

2.1 ***Selection by Committee.*** Participation in the Plan shall be limited to a select group of management and highly compensated Employees and Directors of the Employers, as determined by the Committee in its sole discretion. From that group, the Committee shall select, in its sole discretion, Employees and Directors to participate in the Plan.

2.2 ***Enrollment Requirements.*** As a condition to participation, each selected Employee or Director shall complete, execute and return to the Committee a Plan Agreement, an Election Form and a Beneficiary Designation Form, all within 30 days after he or she is selected to participate in the Plan. In addition, the Committee shall establish from time to time such other enrollment requirements as it determines in its sole discretion are necessary.

2.3 ***Eligibility; Commencement of Participation.*** Provided an Employee or Director selected to participate in the Plan has met all enrollment requirements set forth in this Plan and required by the Committee, including returning all required documents to the Committee within the specified time period, that Employee or Director shall commence participation in the Plan (i) in the case of the First Plan Year, on the first day of the pay period within the First Plan Year following the date on which the Employee or Director completes all enrollment requirements; or (ii) in the case of any subsequent Plan Year, on the first day of the pay period commencing in the Plan Year following the date on which the Employee or Director completes all enrollment requirements. If an Employee or a Director fails to meet all such requirements within the period required, in accordance with Section 2.2, that Employee or Director shall not be eligible to participate in the Plan until the first day of the pay period commencing in the Plan Year following the delivery to and acceptance by the Committee of the required documents.

2.4 ***Termination of Participation and/or Deferrals.*** If the Committee determines in good faith that a Participant no longer qualifies as a member of a select group of management or highly compensated employees, as membership in such group is determined in accordance with Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, the Committee shall have the right, in its sole discretion, to (i) terminate any deferral election the Participant has made for the remainder of the Plan Year in

which the Participant's membership status changes, (ii) prevent the Participant from making future deferral elections and/or (iii) immediately distribute the Participant's then Account Balance as a Termination Benefit subject to Article 7 and terminate the Participant's participation in the Plan.

ARTICLE 3
Deferral Commitments/Company Matching/Crediting/Taxes

3.1 ***Minimum Deferrals.***

(a) ***Base Annual Salary, Bonus and Directors Fees.*** For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, Base Annual Salary, Bonus and/or Director's Fees in the following minimum amounts for each deferral elected:

Deferral	Minimum Amount	
Base Annual Salary	$	2,500
Bonus	$	2,500
Directors Fees	$	0

If an election is made for less than stated minimum amounts, or if no election is made, the amount deferred shall be zero.

(b) ***Stock Option Amount.*** For each Eligible Stock Option exercised in accordance with the terms of the applicable stock option plan, a Participant may elect to defer, as his or her Stock Option Amount, the following minimum amount of Qualifying Gain with respect to exercise of the Eligible Stock Option:

Deferral	Minimum Amount	
Qualifying Gain	$	10,000

Notwithstanding anything herein to the contrary, no election to defer gain upon an Eligible Stock Option exercise after September 30, 1998 will be valid.

3.2 ***Maximum Deferral.***

(a) ***Base Annual Salary, Bonus and Directors Fees.*** For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, Base Annual Salary, Bonus and/or Directors Fees up to the following maximum percentages for each deferral elected:

Deferral	Maximum Amount
Base Annual Salary	Prior to 1999 - 50% After 1998 - 75%
Bonus	100%
Directors Fees	100%

(b) Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, or in the case of the first Plan Year of the Plan itself, the maximum Annual Deferral Amount, with respect to Base Annual Salary, Bonus and Directors Fees shall be limited to the amount of compensation not yet earned by the Participant as of the date the Participant submits a Plan Agreement and Election Form to the Committee for acceptance.

(c) For each Eligible Stock Option, a Participant may elect to defer, as his or her Stock Option Amount, Qualifying Gain up to the following maximum percentage with respect to exercise of the Eligible Stock Option:

Deferral	Maximum Amount
Qualifying Gain	100%

Notwithstanding anything herein to the contrary, no election to defer gain upon an Eligible Stock Option exercise after September 30, 1998 will be valid.

(d) Stock Option Amounts may also be limited by other terms or conditions set forth in the stock option plan or agreement under which such options are granted.

3.3 ***Election to Defer; Effect of Election Form.***

(a) ***First Plan Year.*** In connection with a Participant's commencement of participation in the Plan, the Participant shall make an irrevocable deferral election for the Plan Year in which the Participant commences participation in the Plan, along with such other elections as the Committee deems necessary or desirable under the Plan. For these elections to be valid, the Election Form must be completed and signed by the Participant, timely delivered to the Committee (in accordance with Section 2.2 above) and accepted by the Committee.

(b) ***Subsequent Plan Years.*** For each succeeding Plan Year, an irrevocable deferral election for that Plan Year, and such other elections as the Committee deems necessary or desirable under the Plan, shall be made by timely delivering to the Committee, in accordance with its rules and procedures, before the end of the Plan Year preceding the Plan Year for which the election is made, a new Election Form. If no such Election Form is timely delivered for a Plan Year, the Annual Deferral Amount shall be zero for that Plan Year.

(c) ***Stock Option Deferral.*** For an election to defer gain upon an Eligible Stock Option exercise to be valid: (i) a separate Election Form must be completed and signed by the Participant with respect to the Eligible Stock Option; (ii) the Election Form must be timely delivered to the Committee and accepted by the Committee at any time prior to the date the Participant exercises the Eligible Stock Option for the First Plan Year, and at least six (6) months prior to the date the Participant exercises the Eligible Stock Option for each subsequent Plan Year; (iii) the Eligible Stock Option must be exercised using an actual or phantom Stock-for-Stock payment method; and (iv) the Stock actually or constructively delivered by the Participant to exercise the Eligible Stock Option must have been owned by the Participant during the entire six (6) month period prior to its delivery. In the event that the total Stock purchase price necessary to exercise the Eligible Stock Option exceeds the aggregate fair market value of the Stock actually or constructively delivered by the Participant, the excess portion of the Eligible Stock Option shall be forfeited by the Participant. **Notwithstanding anything herein to the contrary, no election to defer gain upon an Eligible Stock Option exercise after September 30, 1998 will be valid.**

(d) ***Effect of Termination on Pending Election.*** Upon the occurrence of a Termination of Employment, any pending election shall be automatically terminated.

3.4 ***Withholding of Annual Deferral Amounts.*** For each Plan Year, the Base Annual Salary portion of the Annual Deferral Amount shall be withheld from each regularly scheduled Base Annual Salary payroll in equal amounts, as may be adjusted from time to time for increases and decreases in Base Annual Salary. The Bonus and/or Directors Fees portion of the Annual Deferral Amount shall be withheld at the time the Bonus or Directors Fees are or otherwise would be paid to the Participant, whether or not this occurs during the Plan Year itself.

3.5 ***Company Contribution Amount.*** For each Plan Year, the Company, in its sole discretion, may, but is not required to, credit any amount it desires to any Participant's Company Contribution Account under this Plan, which amount shall be for that Participant the Company Contribution Amount for that Plan Year. The amount so credited to a Participant may be smaller or larger than the amount credited to any other Participant, and the amount credited to any Participant for a Plan Year may be zero, even though one or more other Participants receive a Company Contribution Amount for that Plan Year. The Company Contribution Amount, if any, shall be credited as of the date(s) selected by the Company.

3.6 ***Company Matching Amount.*** For each Plan Year, the Company, in its sole discretion, may, but is not required to, credit to each Participant's Company Matching Account a Company Matching Amount for any Plan Year equal to a percentage of all or a portion of the Participant's Annual Deferral Amount for such Plan Year. Such Company Matching Amount may, but need not be, coordinated with any matching contribution made to the 401(k) Plan on the Participant's behalf for the plan year of the 401(k) Plan that corresponds to the Plan Year. The Company Matching Amount, if any, shall be credited as of the date(s) selected by the Company, which may, but need not be, the same date(s) that matching contributions are credited under the 401(k) Plan.

3.7 ***Stock Option Amount.*** Subject to any terms and conditions imposed by this Plan and by the Committee, Participants may elect to defer, under the Plan, Qualifying Gains attributable to an Eligible Stock Option exercise. Stock Option Amounts shall be credited to the Participant on the books of the Company at the time Stock would otherwise have been delivered to the Participant pursuant to the Eligible Stock Option exercise, but for the election to defer.

3.8 ***Investment of Trust Assets.*** The trustees of the Trusts shall be authorized, upon written instructions received from the Committee or investment manager appointed by the Committee, to invest and reinvest the assets of the Trusts in accordance with the applicable trust agreements, including the disposition of Stock and reinvestment of the proceeds in one or more investment vehicles designated by the Committee.

3.9 ***Sources of Stock.*** If Stock Option Amounts are credited under the Plan in either the Company Stock Option Deferral Trust or any Subsidiary Stock Option Deferral Trust pursuant to Section 3.7 in connection with an Eligible Stock Option exercise, the shares underlying the Stock Option Amounts so credited shall be counted against the number of shares reserved under such other plan, program or arrangement.

3.10 ***Vesting.***

(a) A Participant shall at all times be 100% vested in his or her Deferral Account and Stock Option Account.

(b) A Participant shall be vested in his or her Company Contribution Account, if any, and any earnings credited thereon pursuant to Section 3.11 below, in accordance with the vesting schedule established by the Company in its sole discretion and contained in his or her plan Agreement.

(c) A Participant shall be vested in his or her Company Matching Account, and any earnings credited thereon pursuant to Section 3.11 below, as follows: (i) with respect to all benefits under this Plan other than the Termination Benefit, a Participant's vested Company Matching Account shall equal 100% of such Participant's Company Matching Account; and (ii) with respect to the Termination Benefit, a Participant's Company Matching Account shall vest on the basis of the Participant's Years of Service at the time the Participant experiences a Termination of Employment, in accordance with the following schedule:

Years of Service at Date of Termination of Employment	Vested Percentage of Company Matching Account
Less than 2 years	0%
2 years or more, but less than 3	20%
3 years or more, but less than 4	40%
4 years or more, but less than 5	60%
5 years or more	100%

(d) Notwithstanding anything to the contrary contained in this Section 3.10, in the event of a Change in Control, a Participant's Company Contribution Account and Company Matching Account shall immediately become 100% vested (if it is not already vested in accordance with the above vesting schedules).

(e) Notwithstanding subsection (d), the vesting schedule for a Participant's Company Contribution Account and Company Matching Account shall not be accelerated to the extent that the Committee determines that such acceleration would cause the deduction limitations of Section 280G of the Code to become effective. In the event that all of a Participant's Company Contribution Account and/or Company Matching Account is not vested pursuant to such a determination, the Participant may request independent verification of the Committee's calculations with respect to the application of Section 280G. In such case, the Committee must provide to the Participant within 15 business days of such a request an opinion from a nationally recognized accounting firm selected by the Participant (the "Accounting Firm"). The opinion shall state the Accounting Firm's opinion that any limitation in the vested percentage hereunder is necessary to avoid the limits of Section 280G and contain supporting calculations. The cost of such opinion shall be paid for by the Company.

3.11 ***Crediting/Debiting of Account Balances.*** In accordance with, and subject to, the rules and procedures that are established from time to time by the Committee, in its sole discretion, amounts shall be credited or debited to a Participant's Account Balance, which solely for purposes of this Section 3.11 shall include the Participant's Company Contribution Account and Company Matching Account regardless of vesting status, in accordance with the following rules:

(a) ***Election of Measurement Funds.*** Except as otherwise provided in Section 3.11(f) below, a Participant, in connection with his or her initial deferral election in accordance with Section 3.3(a) above, shall elect, on the Election Form, one or more Measurement Fund(s) (as described in Section 3.11(c) below) to be used to determine the additional amounts to be credited or debited to his or her Account Balance for the first calendar month or portion thereof in which the Participant commences participation in the Plan and continuing thereafter for each subsequent calendar month in which the Participant participates in the Plan, unless changed in accordance with the next sentence. Except as otherwise provided in Section 3.11(f) below, commencing with the first calendar month that follows the Participant's commencement of participation in the Plan and continuing thereafter for each subsequent calendar month in which the Participant participates in the Plan, no later than five days prior to the last business day of the calendar month, the Participant may (but is not required to) elect, by submitting an Election Form to the Committee that is accepted by the Committee, to add or delete one or more Measurement Fund(s) to be used to determine the additional amounts to be credited or debited to his or her Account Balance, or to change the portion of his or her Account Balance allocated to each previously or newly elected Measurement Fund. If an election is made in accordance with the previous sentence, it shall apply to the next calendar month and continue thereafter for each subsequent calendar month in which the Participant participates in the Plan, unless changed in accordance with the previous sentence

(b) ***Proportionate Allocation.*** In making any election described in Section 3.11(a) above, the Participant shall specify on the Election Form, in increments of one percentage point (1%), the percentage of his or her Account Balance to be allocated to a Measurement Fund (as if the Participant was making an investment in that Measurement Fund with that portion of his or her Account Balance).

(c) ***Measurement Funds.*** Except as otherwise provided in Section 3.11(f) below, the Participant may elect one or more of the following measurement funds, based on certain mutual funds (the "Measurement Funds"), for the purpose of crediting additional amounts to his or her Account Balance:

(1) Dreyfus VIF Capital Appreciation Portfolio

(2) Dreyfus Stock Index Fund

(3) Fidelity VIP II Asset Manager Portfolio

(4) Fidelity High Income Portfolio

(5) Fidelity VIP Overseas Portfolio

(6) Neuberger & Berman Limited Maturity Bond Portfolio

(7) Warburg Pincus Small Company Growth Portfolio

(8) Company Stock Fund (only available upon exercise of an Eligible Stock Option to the extent of a Qualifying Gain deferral)

As necessary, the Committee may, in its sole discretion, discontinue, substitute or add a Measurement Fund. Each such action will take effect as of the first day of the calendar month that follows by thirty (30) days the day on which the Committee gives Participants advance written notice of such change.

(d) ***Crediting or Debiting Method.*** The performance of each elected Measurement Fund (either positive or negative) will be determined by the Committee, in its reasonable discretion, based on the performance of the Measurement Funds themselves. A Participant's Account Balance shall be credited or debited on a daily basis based on the performance of each Measurement Fund selected by the Participant, *as determined by the Committee in its sole discretion* , as though (i) a

Participant's Account Balance were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to such calendar month, as of the close of business on the first business day of such calendar month, at the closing price on such date; (ii) the portion of the Annual Deferral Amount that was actually deferred during any calendar month were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to such calendar month, no later than the close of business on the third business day after the day on which such amounts are actually deferred from the Participant's Base Annual Salary through reductions in his or her payroll, at the closing price on such date; and (iii) any distribution made to a Participant that decreases such Participant's Account Balance ceased being invested in the Measurement Fund(s), in the percentages applicable to such calendar month, no earlier than three business days prior to the distribution, at the closing price on such date. The Participant's Company Matching Amount shall be credited to his or her Company Matching Account for purposes of this Section 3.11(d) as of the close of business on the date(s) that matching contributions are credited under the 401(k) Plan. The Participant's Company Contribution Amount shall be credited to his or her Company Contribution Account on any date(s) selected by the Company. The Participant's Annual Stock Option Amount(s) shall be credited to his or her Stock Option Account no later than the close of business on the third business day after the day on which the Eligible Stock Option was exercised or otherwise disposed of.

(e) ***No Actual Investment.*** Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and a Participant's election of any such Measurement Fund, the allocation to his or her Account Balance thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Account Balance *shall not* be considered or construed in any manner as an actual investment of his or her Account Balance in any such Measurement Fund. In the event that the Company or the trustees of the Trusts, in their own discretion, decide to invest funds in any or all of the Measurement Funds, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Account Balance shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Company or the Trusts; the Participant shall at all times remain an unsecured creditor of the Company, and where applicable, the Participant's Employer.

(f) ***Special Rule for Stock Option Amount.*** Notwithstanding any other provision of this Plan that may be interpreted to the contrary, a Participant shall automatically be invested in the Company Stock Fund upon exercise of an Eligible Stock Option to the extent of Qualifying Gains deferral. Once the Stock Option Amount representing the Qualifying Gains deferral is credited to the Account Balance of a Participant, except as provided below, the Participant cannot reallocate the Stock Option Amount from the

Company Stock Fund to another Measurement Fund; **provided, however, any Participant who has deferred Qualifying Gains upon an Eligible Stock Option exercise prior to October 1, 1998, shall have until March 31, 1999 to elect to reallocate the Stock Option Account from the Company Stock Fund to one or more other Measurement Fund(s) in accordance with the provisions of Section 3.11 hereof.**

3.12 ***FICA and Other Taxes.***

(a) ***Annual Deferral Amounts.*** For each Plan Year in which an Annual Deferral Amount is being withheld from a Participant, the Participant's Employer(s) shall withhold from that portion of the Participant's Base Annual Salary and Bonus that is not being deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes on such Annual Deferral Amount. If necessary, the Committee may reduce the Annual Deferral Amount in order to comply with this Section 3.12.

(b) ***Company Matching and Contribution Amounts.*** When a Participant becomes vested in a portion of his or her Company Matching Account or Company Contribution Account, the Participant's Employer(s) shall withhold from the Participant's Base Annual Salary and/or Bonus that is not deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes. If necessary, the Committee may reduce the vested portion of the Participant's Company Matching Account in order to comply with this Section 3.12.

(c) ***Annual Stock Option Amounts.*** For each Plan Year in which an Annual Stock Option Amount is being first credited to a Participant's Stock Option Account, the Participant's Employer(s) shall withhold from that portion of the Participant's Base Annual Salary, Bonus and Qualifying Gains that are not being deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes on such Annual Stock Option Amount. If necessary, the Committee may reduce the Annual Stock Option Amount in order to comply with this Section 3.12.

3.13 ***Distributions.*** The Company, or the trustees of the Trusts, shall withhold from any payments made to a Participant under this Plan all federal, state and local income, employment and other taxes required to be withheld in connection with such payments, in amounts and in a manner to be determined in the sole discretion of the Company and the trustees of the Trusts.

ARTICLE 4
In-Service Distribution; Unforeseeable Financial Emergencies

4.1 ***In-Service Distribution.*** In connection with each election to defer an Annual Deferral Amount, a Participant may irrevocably elect to receive a future "In-Service Distribution" from the Plan with respect to all or a portion of such Annual Deferral Amount. Subject to the Deduction Limitation, the In-Service Distribution shall be a lump sum payment in an amount that is equal to the portion of the Annual Deferral Amount for which the Participant has elected to receive an In-Service Distribution plus or minus amounts credited or debited in the manner provided in Section 3.11 above on that amount, determined at the time that the In-Service Distribution becomes payable (rather than the date of a Termination of Employment). Subject to the Deduction Limitation and the other terms and conditions of this Plan, each In-Service Distribution elected shall be paid out during a 60 day period commencing immediately after the last day of any Plan Year designated by the Participant that is at least five Plan Years after the Plan Year in which the Annual Deferral Amount is actually deferred. By way of example, if a five year In-Service Distribution is elected for Annual Deferral Amounts that are deferred in the Plan Year commencing April 1, 1998, the five year In-Service Distribution would become payable during a 60 day period commencing January 1, 2004.

4.2 ***Other Benefits Take Precedence Over In-Service Distribution.*** Should an event occur that triggers a benefit under Article 5, 6, 7 or 8, any Annual Deferral Amount, plus amounts credited or debited thereon, that is subject to an In-Service Distribution election under Section 4.1 shall not be paid in accordance with Section 4.1 but shall be paid in accordance with the other applicable Article.

4.3 ***Withdrawal Payout/Suspensions for Unforeseeable Financial Emergencies.*** If the Participant experiences an Unforeseeable Financial Emergency, the Participant may petition the Committee to (i) suspend any deferrals required to be made by a Participant and/or (ii) receive a partial or full payout from the Plan. The payout shall not exceed the lesser of the Participant's Account Balance, calculated as if such Participant were receiving a Termination Benefit, or the amount reasonably needed to satisfy the Unforeseeable Financial Emergency. If, subject to the sole discretion of the Committee, the petition for a suspension and/or payout is approved, suspension shall take effect upon the date of approval and any payout shall be made within 60 days of the date of approval. The payment of any amount under this Section 4.3 shall not be subject to the Deduction Limitation.

ARTICLE 5
Retirement Benefit

5.1 ***Retirement Benefit.*** Subject to the Deduction Limitation, a Participant who Retires shall receive, as a Retirement Benefit, his or her Account Balance.

5.2 ***Payment of Retirement Benefit.*** A Participant, in connection with his or her commencement of participation in the Plan, shall elect on an Election Form to receive the Retirement Benefit in a lump sum or pursuant to a Quarterly Installment Method of 20, 40 or 60 quarters. If the Participant's Account Balance at the time of Retirement is less than $10,000, the Committee, at its discretion, may allow the Retirement Benefit to be paid in a lump sum. The Participant may annually change his or her election to an allowable alternative payout period by submitting a new Election Form to the Committee, provided that any such Election Form is submitted at least 3 years prior to the Participant's

Retirement and is accepted by the Committee in its sole discretion. The Election Form most recently accepted by the Committee shall govern the payout of the Retirement Benefit. If a Participant does not make any election with respect to the payment of the Retirement Benefit, then such benefit shall be payable in a lump sum. The lump sum payment shall be made, or installment payments shall commence, no later than 60 days after the last day of the Plan Year in which the Participant Retires. Any payment made shall be subject to the Deduction Limitation. Notwithstanding any other provision of this Plan that may be interpreted to the contrary, all distributions from the Company Stock Fund must be paid in the form of Stock.

5.3 ***Death Prior to Completion of Retirement Benefit.*** If a Participant dies after Retirement but before the Retirement Benefit is paid in full, the Participant's unpaid Retirement Benefit payments shall continue and shall be paid to the Participant's Beneficiary (a) over the remaining number of quarters and in the same amounts as that benefit would have been paid to the Participant had the Participant survived, or (b) in a lump sum, if requested by the Beneficiary and allowed in the sole discretion of the Committee, that is equal to the Participant's unpaid remaining Account Balance.

ARTICLE 6
Pre-Retirement Survivor Benefit

6.1 ***Pre-Retirement Survivor Benefit.*** Subject to the Deduction Limitation, the Participant's Beneficiary shall receive a Pre-Retirement Survivor Benefit equal to the Participant's Account Balance if the Participant dies before he or she Retires, experiences a Termination of Employment or suffers a Disability.

6.2 ***Payment of Pre-Retirement Survivor Benefit.*** A Participant, in connection with his or her commencement of participation in the Plan, shall elect on an Election Form whether the Pre-Retirement Survivor Benefit shall be received by his or her Beneficiary in a lump sum or pursuant to a Quarterly Installment Method of 20 or 40 quarters. The Participant may annually change this election to an allowable alternative payout period by submitting a new Election Form to the Committee, which form must be accepted by the Committee in its sole discretion. The Election Form most recently accepted by the Committee prior to the Participant's death shall govern the payout of the Participant's Pre-Retirement Survivor Benefit. If a Participant does not make any election with respect to the payment of the Pre-Retirement Survivor Benefit, then such benefit shall be paid in a lump sum. Despite the foregoing, if the Participant's Account Balance at the time of his or her death is less than $25,000, payment of the Pre-Retirement Survivor Benefit may be made, in the sole discretion of the Committee, in a lump sum or pursuant to a Quarterly Installment Method of not more than 20 quarters. The lump sum payment shall be made, or installment payments shall commence, no later than 60 days after the last day of the Plan Year in which the Committee is provided with proof that is satisfactory to the Committee of the Participant's death. Any payment made shall be subject to the Deduction Limitation. Notwithstanding any other provision of this Plan that may be interpreted to the contrary, all distributions from the Company Stock Fund must be in the form of Stock.

ARTICLE 7
Termination Benefit

7.1 ***Termination Benefit.*** Subject to the Deduction Limitation, the Participant shall receive a Termination Benefit, which shall be equal to the Participant's Account Balance, if a Participant experiences a Termination of Employment prior to his or her Retirement, death or Disability.

7.2 ***Payment of Termination Benefit.*** If the Participant's Account Balance at the time of his or her Termination of Employment is less than $25,000, payment of his or her Termination Benefit shall be paid in a lump sum. If his or her Account Balance at such time is equal to or greater than that amount, the Participant may request and the Committee, in its sole discretion, may allow the Termination Benefit to be paid in a lump sum or pursuant to a Quarterly Installment Method of 20 quarters. The lump sum payment shall be made, or installment payments shall commence, no later than 60 days after the last day of the Plan Year in which the Participant experiences the Termination of Employment. Any payment made shall be subject to the Deduction Limitation. Notwithstanding any other provision of this Plan that may be interpreted to the contrary, all distributions from the Company Stock Fund must be paid in the form of Stock.

ARTICLE 8
Disability Waiver and Benefit

8.1 ***Disability Waiver.***

(a) ***Waiver of Deferral.*** A Participant who is determined by the Committee to be suffering from a Disability shall be (i) excused from fulfilling that portion of the Annual Deferral Amount commitment that would otherwise have been withheld from a Participant's Base Annual Salary, Bonus and/or Directors Fees for the Plan Year during which the Participant first suffers a Disability and (ii) excused from fulfilling any unexercised Stock Option Amount commitments. During the period of Disability, the Participant shall not be allowed to make any additional deferral elections, but will continue to be considered a Participant for all other purposes of this Plan.

(b) ***Return to Work.*** If a Participant returns to employment, or service as a Director, with an Employer, after a Disability ceases, the Participant may elect to defer an Annual Deferral Amount and Stock Option Amount for the Plan Year following his or her return to employment or service and for every Plan Year thereafter while a Participant in the Plan; provided such deferral elections are otherwise allowed and an Election Form is delivered to and accepted by the Committee for each such election in accordance with Section 3.3 above.

8.2 ***Continued Eligibility; Disability Benefit.*** A Participant suffering a Disability shall, for benefit purposes under this Plan, continue to be considered to be employed, or in the service of an Employer as a Director, and shall be eligible for the benefits provided for in Articles 4, 5, 6 or 7 in accordance with the provisions of those Articles. Notwithstanding the above, the Committee shall have the right to, in its sole and absolute discretion and for purposes of this Plan only, and must in the case of a Participant who is otherwise eligible to Retire, deem the Participant to have experienced a Termination of Employment, or in the case of a Participant who is eligible to Retire, to have Retired, at any time (or in the case of a Participant who is eligible to Retire, as soon as practicable) after such Participant is determined to be suffering a Disability, in which case the Participant shall receive a Disability Benefit equal to his or her Account Balance at the time of the Committee's determination; provided, however, that should the Participant otherwise have been eligible to Retire, he or she shall be paid in accordance with Article 5. The Disability Benefit shall be paid in a lump sum within 60 days of the Committee's exercise of such right. Any payment made shall be subject to the Deduction Limitation.

8.3 ***Short-Term Disability Waiver.*** If a Participant qualifies for and receives short-term disability benefits under any short-term disability plan maintained by Participant's Employer, the Participant shall continue to be considered employed by the Employer for purposes of this Plan and the Participant shall be excused from making deferrals under the Plan until the earlier of the date the short-term disability benefits expire or the Participant returns to a paid employment status. Upon such expiration or return, deferrals shall resume for the remaining portion of the Plan Year in which the expiration or return occurs, based on the deferral election, if any, made for that Plan Year. If no election was made for that Plan Year, no deferral shall be withheld.

ARTICLE 9
Beneficiary Designation

9.1 ***Beneficiary.*** Each Participant shall have the right, at any time, to designate his or her Beneficiary(ies) (both primary as well as contingent) to receive any benefits payable under the Plan to a beneficiary upon the death of a Participant. The Beneficiary designated under this Plan may be the same as or different from the Beneficiary designation under any other plan of an Employer in which the Participant participates.

9.2 ***Beneficiary Designation; Change; Spousal Consent.*** A Participant shall designate his or her Beneficiary by completing and signing the Beneficiary Designation Form, and returning it to the Committee or its designated agent. A Participant shall have the right to change a Beneficiary by completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Committee's rules and procedures, as in effect from time to time. If the Participant names someone other than his or her spouse as a Beneficiary of at least fifty percent (50%) of the Participant's benefits, a spousal consent, in the form designated by the Committee, must be signed by that

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Participant's spouse and returned to the Committee. Upon the acceptance by the Committee of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be canceled. The Committee shall be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Committee prior to his or her death.

9.3 ***Acknowledgment.*** No designation or change in designation of a Beneficiary shall be effective until received and acknowledged in writing by the Committee or its designated agent.

9.4 ***No Beneficiary Designation.*** If a Participant fails to designate a Beneficiary as provided in Sections 9.1, 9.2 and 9.3 above or, if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be his or her surviving spouse. If the Participant has no surviving spouse, the benefits remaining under the Plan to be paid to a Beneficiary shall be payable to the executor or personal representative of the Participant's estate.

9.5 ***Doubt as to Beneficiary.*** If the Committee has any doubt as to the proper Beneficiary to receive payments pursuant to this Plan, the Committee shall have the right, exercisable in its discretion, to cause the Company to withhold such payments until this matter is resolved to the Committee's satisfaction.

9.6 ***Discharge of Obligations.*** The payment of benefits under the Plan to a Beneficiary shall fully and completely discharge all Employers and the Committee from all further obligations under this Plan with respect to the Participant, and that Participant's Plan Agreement shall terminate upon such full payment of benefits.

ARTICLE 10
Leave of Absence

10.1 ***Paid Leave of Absence.*** If a Participant is authorized by the Participant's Employer for any reason to take a paid leave of absence from the employment of the Employer, the Participant shall continue to be considered employed by the Employer and the Annual Deferral Amount shall continue to be withheld during such paid leave of absence in accordance with Section 3.3.

10.2 ***Unpaid Leave of Absence.*** If a Participant is authorized by the Participant's Employer for any reason to take an unpaid leave of absence from the employment of the Employer, the Participant shall continue to be considered employed by the Employer and the Participant shall be excused from making deferrals until the earlier of the date the leave of absence expires or the Participant returns to a paid employment status. Upon such expiration or return, deferrals shall resume for the remaining portion of the Plan Year in which the expiration or return occurs, based on the deferral election, if any, made for that Plan Year. If no election was made for that Plan Year, no deferral shall be withheld.

ARTICLE 11
Termination, Amendment or Modification

11.1 ***Termination.*** Although the Company anticipates that it will continue the Plan for an indefinite period of time, there is no guarantee that the Company will continue the Plan or will not terminate the Plan at any time in the future. Accordingly, the Company reserves the right to discontinue its sponsorship of the Plan and/or to terminate the Plan at any time with respect to any or all of the participating Employees and Directors, by action of its board of directors. Upon the termination of the Plan with respect to the Employees and/or Directors of any Employer, the Plan Agreements of the affected Participants who are employed by that Employer, or in the service of that Employer as Directors, shall terminate and their Account Balances, determined as if they had experienced a Termination of Employment on the date of Plan termination or, if Plan termination occurs after the date upon which a Participant was eligible to Retire, then with respect to that Participant as if he or she had Retired on the date of Plan termination, shall be paid to the Participants as follows: Prior to a Change in Control, if the Plan is terminated with respect to all of the Employees and/or Directors of an Employer, the Company shall have the right, in its sole discretion, and notwithstanding any elections made by the Participant, to pay such benefits in a lump sum or pursuant to a Quarterly Installment Method of up to 60 quarters, with amounts credited and debited during the installment period as provided herein. If the Plan is terminated with respect to less than all of the

Employees and/or Directors of an Employer, the Company shall be required to pay such benefits in a lump sum. After a Change in Control, the Company shall be required to pay such benefits in a lump sum. The termination of the Plan shall not adversely affect any benefits to which a Participant or Beneficiary has become entitled under the Plan as of the date of termination; provided however, that the Company shall have the right to accelerate installment payments without a premium or prepayment penalty by paying the Account Balance in a lump sum or pursuant to a Quarterly Installment Method using fewer quarters (provided that the present value of all payments that will have been received by a Participant at any given point of time under the different payment schedule shall equal or exceed the present value of all payments that would have been received at that point in time under the original payment schedule).

11.2 ***Amendment.*** The Company may, at any time, amend or modify the Plan in whole or in part by the action of its board of directors; provided, however, that: (i) no amendment or modification shall be effective to decrease or restrict the value of a Participant's Account Balance in existence at the time the amendment or modification is made, calculated as if the Participant had experienced a Termination of Employment as of the effective date of the amendment or modification or, if the amendment or modification occurs after the date upon which the Participant was eligible to Retire, the Participant had Retired as of the effective date of the amendment or modification, and (ii) no amendment or modification of this Section 11.2 or Section 12.2 of the Plan shall be effective. The amendment or modification of the Plan shall not adversely affect any benefits to which a Participant or Beneficiary has become entitled under the Plan as of the date of the amendment or modification; provided, however, that the Company shall have the right to accelerate installment payments by paying the Account Balance in a lump sum or pursuant to a Quarterly Installment Method using fewer quarters (provided that the present value of all payments that will have been received by a Participant at any given point of time under the different payment schedule shall equal or exceed the present value of all payments that would have been received at that point in time under the original payment schedule).

11.3 ***Plan Agreement.*** Despite the provisions of Sections 11.1 and 11.2 above, if a Participant's Plan Agreement contains benefits or limitations that are not in this Plan document, the Company may only amend or terminate such provisions with the consent of the Participant.

11.4 ***Effect of Payment.*** The full payment of the applicable benefit under Articles 4, 5, 6, 7 or 8 of the Plan shall completely discharge all obligations to a Participant and his or her designated Beneficiaries under this Plan and the Participant's Plan Agreement shall terminate.

ARTICLE 12
Administration

12.1 ***Committee Duties.*** Except as otherwise provided in this Article 12, this Plan shall be administered by a Committee which shall consist of the Board, or such committee as the Board shall appoint. Members of the Committee may be Participants under this Plan. The Committee shall also have the discretion and authority to (i) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and (ii) decide or resolve any and all questions including interpretations of this Plan, as may arise in connection with the Plan. Any individual serving on the Committee who is a Participant shall not vote or act on any matter relating solely to himself or herself. When making a determination or calculation, the Committee shall be entitled to rely on information furnished by a Participant or the Company.

12.2 ***Administration Upon Change In Control.*** For purposes of this Plan, the Company shall be the "Administrator" at all times prior to the occurrence of a Change in Control. Upon and after the occurrence of a Change in Control, the "Administrator" shall be an independent third party selected by the trustee of the Master Trust and approved by the individual who, immediately prior to such event, was the Company's Chief Executive Officer or, if not so identified, the Company's highest ranking officer (the "Ex-CEO"). The Administrator shall have the discretionary power to determine all questions arising in connection with the administration of the Plan and the interpretation of the Plan and Trusts including, but not limited to benefit entitlement determinations; provided, however, upon and after the occurrence of a Change in Control, the Administrator shall have no power to direct the investment of Plan assets or assets of the Trusts or select any investment manager or custodial firm for the Plan or Trusts. Upon and after the occurrence of a Change in Control, the Company must: (1) pay

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all reasonable administrative expenses and fees of the Administrator; and (2) supply full and timely information to the Administrator or all matters relating to the Plan, the Trusts, the Participants and their Beneficiaries, the Account Balances of the Participants, the date of circumstances of the Retirement, Disability, death or Termination of Employment of the Participants, and such other pertinent information as the Administrator may reasonably require. Upon and after a Change in Control, the Administrator may be terminated (and a replacement appointed) by the trustee of the Master Trust only with the approval of the Ex-CEO. Upon and after a Change in Control, the Administrator may not be terminated by the Company.

12.3 ***Agents.*** In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel who may be counsel to any Employer.

12.4 ***Binding Effect of Decisions.*** The decision or action of the Administrator with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

12.5 ***Indemnity of Committee.*** The Company shall indemnify and hold harmless the members of the Committee, and any Employee or agent to whom the duties of the Committee may be delegated, and the Administrator against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Plan, except in the case of gross negligence or willful misconduct by the Committee, any of its members, any such Employee or the Administrator.

12.6 ***Employer Information.*** To enable the Committee and/or Administrator to perform its functions, the Company and each Employer shall supply full and timely information to the Committee and/or Administrator, as the case may be, on all matters relating to the compensation of its Participants, the date and circumstances of the Retirement, Disability, death or Termination of Employment of its Participants, and such other pertinent information as the Committee or Administrator may reasonably require.

ARTICLE 13
Other Benefits and Agreements

13.1 ***Coordination with Other Benefits.*** The benefits provided for a Participant and Participant's Beneficiary under the Plan are in addition to any other benefits available to such Participant under any other plan or program for employees of the Participant's Employer. The Plan shall supplement and shall not supersede, modify or amend any other such plan or program except as may otherwise be expressly provided.

ARTICLE 14
Claims Procedures

14.1 ***Presentation of Claim.*** Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a "Claimant") may deliver to the Committee a written claim for a determination with respect to the amounts distributable to such Claimant from the Plan. If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within 60 days after such notice was received by the Claimant. All other claims must be made within 180 days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the Claimant.

14.2 ***Notification of Decision.*** The Committee shall consider a Claimant's claim within a reasonable time, and shall notify the Claimant in writing:

(a) that the Claimant's requested determination has been made, and that the claim has been allowed in full; or

(b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, and such notice must set forth in a manner calculated to be understood by the Claimant:

(i) the specific reason(s) for the denial of the claim, or any part of it;

(ii) specific reference(s) to pertinent provisions of the Plan upon which such denial was based;

(iii) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary; and

(iv) an explanation of the claim review procedure set forth in Section 14.3 below.

14.3 ***Review of a Denied Claim.*** Within 60 days after receiving a notice from the Committee that a claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized representative) may file with the Committee a written request for a review of the denial of the claim. Thereafter, but not later than 30 days after the review procedure began, the Claimant (or the Claimant's duly authorized representative):

(a) may review pertinent documents;

(b) may submit written comments or other documents; and/or

(c) may request a hearing, which the Committee, in its sole discretion, may grant.

14.4 ***Decision on Review.*** The Committee shall render its decision on review promptly, and not later than 60 days after the filing of a written request for review of the denial, unless a hearing is held or other special circumstances require additional time, in which case the Committee's decision must be rendered within 120 days after such date. Such decision must be written in a manner calculated to be understood by the Claimant, and it must contain:

(a) specific reasons for the decision;

(b) specific reference(s) to the pertinent Plan provisions upon which the decision was based; and

(c) such other matters as the Committee deems relevant.

14.5 ***Subsequent Action; Mandatory Arbitration.***

(a) ***Subsequent Action.*** A Claimant's compliance with the foregoing provisions of this Article 14 is a mandatory prerequisite to a Claimant's right to commence any subsequent action with respect to any claim for benefits under this Plan.

(b) ***Mandatory Arbitration.*** Any controversy or claim arising out of or relating to this Plan shall be resolved by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Arbitration shall be by a single arbitrator experienced in the matters at issue and selected by the parties in accordance with the Commercial Arbitration Rules of the American Arbitration Association. The arbitration shall be held in such place in Minneapolis, Minnesota, as may be specified by the arbitrator (or any place agreed to by the parties and the arbitrator). The decision of the arbitrator shall be final and binding as to any matters submitted under this Article 14; provided, however, if necessary, such decision may be enforced in any court having jurisdiction over the subject matter or over any of the parties to this Plan. All costs and expenses incurred in connection with any such arbitration proceeding (including reasonable attorneys' fees) shall be borne by the party against which the decision is rendered. If the arbitrator's decision is a compromise, the determination of which party or parties bears the costs and expenses incurred in connection with such arbitration proceeding shall be made by the arbitrator on the basis of the arbitrator's assessment of the relative merits of the parties' positions.

ARTICLE 15
Trusts

15.1 ***Establishment of the Trusts.***

(a) ***In General.*** The Company shall establish the Trusts.

(b) ***Master Trust.*** The Company shall at least annually transfer over to the Master Trust such assets as the Company determines, in its sole discretion, are necessary to provide, on a present value basis, for its respective future liabilities created with respect to the Annual Deferral Amounts, Company Contribution Amounts, and Company Matching Amounts for the Participants for all periods prior to the transfer, as well as any debits and credits to the Participants' Account Balances (excluding debits and credits to the Participant's Stock Option Account balance) for all periods prior to the transfer, taking into consideration the value of the assets in such Trust at the time of the transfer.

(c) ***Company Stock Option Deferral Trust.*** The Company shall at least annually transfer over to the Company Stock Option Deferral Trust such assets as the Company determines, in its sole discretion, are necessary to provide, on a present value basis, for its respective future liabilities created with respect to the Annual Stock Option Amounts for the Company's Participants for all periods prior to the transfer, as well as any debits and credits to the Participants' Account Balances (excluding debits and credits to the Participant's Deferral Account balance, Company Contribution Account balance, and Company Matching Account balance) for all periods prior to the transfer, taking into consideration the value of the assets in such Trust at the time of the transfer.

(d) ***Subsidiary Stock Option Deferral Trusts.*** The Company shall at least annually transfer over to the Subsidiary Stock Option Deferral Trust such assets as the Company determines, in its sole discretion, are necessary to provide, on a present value basis, for its respective future liabilities created with respect to the Annual Stock Option Amounts for Participants who are Employees or Directors of any subsidiary of the Company, for all periods prior to the transfer, as well as any debits and credits to such Participants' Account Balances (excluding debits and credits to the Participant's Deferral Account balance, Company Contribution Account balance, and Company Matching Account balance) for all periods prior to the transfer, taking into consideration the value of the assets in such Trust at the time of the transfer.

15.2 ***Interrelationship of the Plan and the Trusts.*** The provisions of the Plan and the Plan Agreement shall govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of the Trusts shall govern the rights of the Company, the Participants, and the creditors of the Company and, where applicable, creditors of Employers other than the Company, to the assets transferred to the Trusts. The Company shall at all times remain liable to carry out its obligations under the Plan.

15.3 ***Distributions From the Trusts.*** The Company's obligations under the Plan may be satisfied with assets of the Trusts distributed pursuant to the terms of the Trusts, and any such distribution shall reduce the Company's obligations under this Plan.

15.4 ***Stock Transferred to the Trusts.*** Notwithstanding any other provision of this Plan, the Company Stock Option Deferral Trust, or any Subsidiary Stock Option Deferral Trust: (i) if assets of the Trusts are distributed to a Participant in a distribution which reduces the Participant's Stock Option Account balance under this Plan, such distribution must be made in the form of Stock; and (ii) any Stock transferred to any such Trusts may not be otherwise distributed or disposed of by the trustee (except pursuant to a valid election to reallocate from the Company Stock Fund made by a Participant in accordance with Section 3.11(f) hereof).

ARTICLE 16
Miscellaneous

16.1 ***Status of Plan.*** The Plan is intended to be a plan that is not qualified within the meaning of Code Section 401(a) and that "is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employee" within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1). The Plan shall be administered and interpreted to the extent possible in a manner consistent with that intent.

16.2 ***Unsecured General Creditor.*** Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of an Employer. For purposes of the payment of benefits under this Plan, any and all of the Company's assets shall be, and

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remain, the general, unpledged unrestricted assets of the Company. The Company's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

16.3 ***Employer Liability.*** The Company's liability for the payment of benefits , and the obligation of any Employer, shall be defined only by the Plan and the Plan Agreement, as entered into between the Company, the Employer (if different from the Company) and a Participant. Neither the Company nor an Employer shall have any obligation to a Participant under the Plan except as expressly provided in the Plan and his or her Plan Agreement.

16.4 ***Nonassignability.*** Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate, alienate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be, unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise.

16.5 ***Not a Contract of Employment.*** The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between any Employer and the Participant. Such employment is hereby acknowledged to be an "at will" employment relationship that can be terminated at any time for any reason, or no reason, with or without cause, and with or without notice, unless expressly provided in a written employment agreement. Nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of any Employer, either as an Employee or a Director, or to interfere with the right of any Employer to discipline or discharge the Participant at any time.

16.6 ***Furnishing Information.*** A Participant or his or her Beneficiary will cooperate with the Committee by furnishing any and all information requested by the Committee and take such other actions as may be requested in order to facilitate the administration of the Plan and the payments of benefits hereunder, including but not limited to taking such physical examinations as the Committee may deem necessary.

16.7 ***Terms.*** Whenever any words are used herein in the masculine, they shall be construed as though they were in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.

16.8 ***Captions.*** The captions of the articles, sections and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

16.9 ***Governing Law.*** Subject to ERISA, the provisions of this Plan shall be construed and interpreted according to the internal laws of the State of Minnesota without regard to its conflicts of laws principles.

16.10 ***Notice.*** Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below:

Best Buy Co., Inc.
Office of the General Counsel
7075 Flying Cloud Drive
Eden Prairie, MN 55344

with a copy to:

Elliot S. Kaplan, Esq.
Robins, Kaplan, Miller & Ciresi, L.L.P.
2800 LaSalle Plaza
800 LaSalle Avenue
Minneapolis, MN 55402

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

16.11 ***Successors.*** The provisions of this Plan shall bind and inure to the benefit of the Company and, where applicable, the Participant's Employer, their respective successors and assigns, and the Participant and the Participant's designated Beneficiaries.

16.12 ***Spouse's Interest.*** The interest in the benefits hereunder of a spouse of a Participant who has predeceased the Participant shall automatically pass to the Participant and shall not be transferable by such spouse in any manner, including but not limited to such spouse's will, nor shall such interest pass under the laws of intestate succession.

16.13 ***Validity.*** In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein.

16.14 ***Incompetent.*** If the Committee determines in its discretion that a benefit under this Plan is to be paid to a minor, a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Committee may direct payment of such benefit to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Committee may require proof of minority, incompetence, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.

16.15 ***Court Order.*** The Committee is authorized to make any payments directed by court order in any action in which the Plan or the Committee has been named as a party. In addition, if a court determines that a spouse or former spouse of a Participant has an interest in the Participant's benefits under the Plan in connection with a property settlement or otherwise, the Committee, in its sole discretion, shall have the right, notwithstanding any election made by a Participant, to immediately distribute the spouse's or former spouse's interest in the Participant's benefits under the Plan to that spouse or former spouse.

16.16 ***Distribution in the Event of Taxation.***

(a) ***In General.*** If, for any reason, all or any portion of a Participant's benefits under this Plan becomes taxable to the Participant prior to receipt, a Participant may petition the Committee before a Change in Control, or the Administrator of the Trusts after a Change in Control, for a distribution of that portion of his or her benefit that has become taxable. Upon the grant of such a petition, which grant shall not be unreasonably withheld (and, after a Change in Control, shall be granted), the Company shall distribute to the Participant immediately available funds in an amount equal to the taxable portion of his or her benefit (which amount shall not exceed a Participant's unpaid Account Balance under the Plan). If the petition is granted, the tax liability distribution shall be made within 90 days of the date when the Participant's petition is granted. Such a distribution shall affect and reduce the benefits to be paid under this Plan.

(b) ***Trusts.*** If any of the Trusts terminate in accordance with Section 3.6(e) of such Trust and benefits are distributed from such Trust to a Participant in accordance with that Section, the Participant's benefits under this Plan shall be reduced to the extent of such distributions.

16.17 ***Insurance.*** The Company, on its own behalf or on behalf of the trustees of any of the Trusts, and, in its sole discretion, may apply for and procure insurance on the life of the Participant, in such amounts and in such forms as the trustees may choose. The Company or the trustees of any of the Trusts, as the case may be, shall be the sole owner and beneficiary of any such insurance. The Participant shall have no interest whatsoever in any such policy or policies, and at the request of the Company shall submit to medical examinations and supply such information and execute such documents as may be required by the insurance company or companies to whom the Company has applied for insurance.

16.18 ***Legal Fees To Enforce Rights After Change in Control.*** The Company is aware that upon the occurrence of a Change in Control, the Board or the board of directors of a Participant's Employer (which might then be composed of new members) or a shareholder of the Company or the Participant's Employer, or of any successor corporation might then cause or attempt to cause the Company, the Participant's Employer or such successor to refuse to comply with its obligations under the Plan and might cause or attempt to cause the Company or the Participant's Employer to institute, or may institute, litigation seeking to deny Participants the benefits intended under the Plan. In these circumstances, the purpose of the Plan could be frustrated. Accordingly, if, following a Change in Control, it should appear to any Participant that the Company, the Participant's Employer or any successor corporation has failed to comply with any of its obligations under the Plan or any agreement thereunder or, if the Company, such Employer or any other person takes any action to declare the Plan void or unenforceable or institutes any litigation or other legal action designed to deny, diminish or to recover from any Participant the benefits intended to be provided, then the Company irrevocably authorizes such Participant to retain counsel of his or her choice at the expense of the Company to represent such Participant in connection with the initiation or defense of any litigation or other legal action, whether by or against the Company, the Participant's Employer or any director, officer, shareholder or other person affiliated with the Company, the Participant's Employer or any successor thereto in any jurisdiction.

IN WITNESS WHEREOF, the Company has signed this Second Amended and Restated Plan document effective as of July 1, 1999.

Best Buy Co., Inc., a Minnesota corporation

By: /s/ RICHARD M. SCHULZE

Richard M. Schulze
Chief Executive Officer

QuickLinks

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

10-Year Financial Highlights

$ in thousands, except per share amounts

Fiscal Period(1)	2000	1999(6)	1998(6)	1997(6)
Statement of Earnings Data				
Revenues	**$ 12,494,023**	$ 10,064,646	$ 8,337,762	$ 7,757,692
Gross profit	**2,393,429**	1,814,523	1,311,688	1,045,890
Selling, general and administrative expenses	**1,854,170**	1,463,281	1,145,280	1,005,675
Operating income	**539,259**	351,242	166,408	40,215
Earnings (loss) before cumulative effect of accounting change	**347,070**	216,282	81,938	(6,177)
Net earnings (loss)	**347,070**	216,282	81,938	(6,177)
Per Share Data(2)				
Earnings (loss) before cumulative effect of accounting change	**$ 1.63**	$ 1.03	$ .46	$ (.04)
Net earnings (loss)	**1.63**	1.03	.46	(.04)
Common stock price: High	**80.50**	49.00	15.30	6.56
Low	**40.50**	14.75	2.16	1.97
Operating and Other Data				
Comparable store sales change(3)	**11.1%**	13.5%	2.0%	(4.7%)
Number of stores (year-end)	**357**	311	284	272
Average revenues per store(4)	**$ 37,200**	$ 33,700	$ 29,600	$ 29,300
Gross profit percentage	**19.2%**	18.0%	15.7%	13.5%
Selling, general and administrative expense percentage	**14.8%**	14.5%	13.7%	13.0%
Operating income percentage	**4.3%**	3.5%	2.0%	.5%
Inventory turns(5)	**7.2**	6.6	5.6	4.6

Year-End Balance Sheet Data				
Working capital	**$ 453,411**	$ 662,111	$ 666,172	$ 563,083
Total assets	**2,995,342**	2,531,623	2,070,371	1,740,399
Long-term debt, including current portion	**30,650**	60,597	225,322	238,016
Convertible preferred securities	**—**	—	229,854	230,000
Shareholders' equity	**1,095,985**	1,033,945	535,712	428,796

This table should be read in conjunction with Management's Discussion and Analysis of Results of Operations and Financial Condition.

(1) Fiscal 1996 contained 53 weeks. All other periods presented contained 52 weeks.

(2) Earnings per share is presented on a diluted basis and reflects two-for-one stock splits in March 1999, May 1998 and April 1994, and a three-for-two stock split in September 1993.

(3) Comparable stores are stores open at least 14 full months.

(4) Average revenues per store is based upon total revenues for the period divided by the weighted average number of stores open during such period.

(5) Inventory turns are calculated based upon a monthly average of inventory balances.

(6) During fiscal 2000, to comply with guidance from the staff of the Securities and Exchange Commission, the Company changed its accounting policy with respect to the recognition of net commission revenues from the sale of certain insured extended service contracts sold after November 1995. This change resulted in a restatement of previously reported financial information.

(7) During fiscal 1994, the Company adopted SFAS No. 109, Accounting for Income Taxes, resulting in a cumulative effect adjustment of ($425) or ($.01) per share.

(8) During fiscal 1991, the Company changed its method of accounting for extended service contracts, resulting in a cumulative effect adjustment of ($13,997) or ($.15) per share.

10-Year Financial Highlights

$ in thousands, except per share amounts

1996(6)	1995	1994(7)	1993	1992	1991(8)
$ 7,214,828	$ 5,079,557	$ 3,006,534	$ 1,619,978	$ 929,692	$ 664,823
933,951	690,393	456,925	284,034	181,062	141,657
813,988	568,466	379,747	248,126	162,286	130,681
119,963	121,927	77,178	35,908	18,776	10,976
46,425	57,651	41,710	19,855	9,601	4,540
46,425	57,651	41,285	19,855	9,601	(9,457)
$ .27	$ .32	$ .26	$ .14	$ .08	$ .05
.27	.32	.25	.14	.08	(.10)
7.41	11.31	7.86	3.92	2.95	.92
3.19	5.53	2.72	1.17	.67	.38
5.5%	19.9%	26.9%	19.4%	14.0%	1.0%
251	204	151	111	73	56
$ 31,100	$ 28,400	$ 22,600	$ 17,600	$ 14,300	$ 12,400
12.9%	13.6%	15.2%	17.5%	19.5%	21.3%
11.3%	11.2%	12.6%	15.3%	17.5%	19.7%
1.7%	2.4%	2.6%	2.2%	2.0%	1.6%
4.8	4.7	5.0	4.8	5.1	4.5
$ 584,769	$ 609,049	$ 362,582	$ 118,921	$ 126,817	$ 64,623
1,891,858	1,507,125	952,494	439,142	337,218	185,528

229,855	240,965	219,710	53,870	52,980	35,695
230,000	230,000	—	—	—	—
430,020	376,122	311,444	182,283	157,568	56,741

Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations

Fiscal 2000 was another outstanding year as the Company generated record revenues and earnings for the third consecutive year. For the fiscal year ended February 26, 2000, net earnings increased 60%, to $347.1 million, compared with earnings of $216.3 million in fiscal 1999. Earnings per share on a diluted basis increased to $1.63 in fiscal 2000, compared with $1.03 in fiscal 1999 and $.46 in fiscal 1998. Continued enhancements to its operating model enabled the Company to generate record results by capitalizing on the ongoing strength in consumer spending and consumers' rapid acceptance of new digital technology.

In addition to traditional financial measurements, the Company uses Economic Value Added (EVA®) to encourage management to take actions to increase shareholder value. EVA is net operating profit after taxes minus a charge for total capital employed. The Company generated EVA of $178 million in fiscal 2000, compared with $75 million in fiscal 1999, a 137% year-over-year improvement. The fiscal 2000 EVA improvement resulted from the stronger operating performance and the leveraging of capital employed through actions such as increasing inventory turns from 6.6 in fiscal 1999 to 7.2 in fiscal 2000. In fiscal 1999, EVA also improved more than $100 million over the previous year.

The following table presents selected revenue data for each of the past three fiscal years ($ in thousands).

	2000	**1999**	**1998**
Revenues	**$ 12,494,023**	$ 10,064,646	$ 8,337,762
Percentage increase in revenues	**24.1%**	20.7%	7.5%
Comparable store sales change	**11.1%**	13.5%	2.0%
Average revenues per store	**$ 37,200**	$ 33,700	$ 29,600

Revenues in fiscal 2000 increased 24.1% to $12.5 billion, compared with $10.1 billion in fiscal 1999, due to an 11.1% increase in comparable store sales, the net addition of 46 stores and a full year of operations at the 28 stores opened in fiscal 1999. Fiscal 2000 was the second consecutive year of double-digit comparable store sales increases. The increases, which exceeded industry comparable store sales gains, reflect the continued strength in consumer spending and the Company's ability to gain market share. Higher levels of disposable income due to the strong economy, consumers' rapid migration to digital technology and the increased affordability of personal computers all drove consumer demand. Digital products doubled as a percentage of sales, comprising more than 10% of sales at the end of fiscal 2000. Internet service providers (ISPs) offered new subscribers significant rebates on purchases of personal computers, making them more affordable. This stimulated unit sales of personal computers and sales of higher-margin accessories and Performance Service Plans (PSPs) that accompany the purchase of a computer. The Company believes it gained market share in fiscal 2000 as a result of a more customer-focused product assortment and its ability to successfully bring new technology products such as Digital Versatile Disc (DVD) to consumers. Since the launch of DVD two years ago, the Company has captured over 30% of the national market share of DVD software sales and over 20% of DVD hardware sales.

The Company opened 47 new stores in fiscal 2000, including entry into the markets of San Francisco, Sacramento and San Diego, Calif.; Norfolk and Richmond, Va.; Albany and Rochester, N.Y.; and Jacksonville and Tallahassee, Fla. Included in the 47 new stores were nine of the Company's new small-market stores, intended to serve markets with populations less than 200,000. The Company also relocated 10 stores, expanded three stores and closed one store in fiscal 2000.

Revenues in fiscal 1999 were 20.7% higher than the $8.3 billion reported in fiscal 1998, as comparable store sales increased 13.5%, 28 new stores were added and results included a full year of operation at the 13 stores opened in fiscal 1998. The comparable store sales gains last year also were driven by strong consumer spending, market share gains and improvements in the Company's operating model. Increased affordability of products, including personal computers and consumer electronics, contributed to the sales increase along with strong consumer response to new digital technology. More effective advertising, a better product assortment and improved in-stock positions, as well as the continued consolidation and closing of competing retailers, drove the market share gains in fiscal 1999.

Product Category Performance

The following table presents the Company's retail store sales mix by major product category for each of the past three fiscal years.

	2000	1999	1998
Home Office	**35%**	36%	38%
Consumer Electronics—Video	**17%**	16%	15%
Consumer Electronics—Audio	**11%**	11%	11%
Entertainment Software	**19%**	20%	20%
Appliances	**8%**	8%	9%
Other	**10%**	9%	7%
Total	**100%**	100%	100%

The Company's sales in the home office product category continued to expand in fiscal 2000, although the growth was outpaced by gains in other product categories. As a result, the home office category declined to 35% of total sales in fiscal 2000, from 36% in fiscal 1999 and 38% in fiscal 1998. ISP subsidy offers stimulated unit sales of personal computers, which more than offset a decline in average selling prices of approximately 20%. Selling prices of personal computers below $500, after ISP rebates, and the increasing popularity of the Internet, attracted new as well as repeat buyers. Improved merchandising and selling strategies enabled the Company to capitalize on the higher unit sales of personal computers and increase sales of additional higher-margin products and services, such as PSPs and accessories that complement the sale of computer hardware. Additionally, more effective management of the transition to new computer models led to a product offering that better satisfied consumer demand and reduced margin pressure at the end of product life cycles. Consumers also rapidly embraced a popular assortment of new digital communication devices such as digital Web phones, pagers and other new technology products, further driving sales increases in this category.

Consumer electronics comprised 28% of the Company's total sales mix in fiscal 2000, up from 27% in fiscal 1999. Growth in the sales of digital products, such as DVD players, digital camcorders and digital broadcast satellite receivers, contributed to this increase. Consumer demand for DVD players, driven by prices under $200 by year-end, and the expanded availability of popular DVD movie titles, resulted in DVD hardware comparable store sales increases of more than 150%. Despite consumers' rapid acceptance of the DVD format, just over 5% of national households own a DVD player, indicating a significant opportunity for the Company to capitalize on further market penetration. Also contributing to the sales mix increase were strong sales of traditional analog products, such as televisions and home theater components, resulting from better in-stock positions, more effective advertising and increased affordability. The introduction of digital television also continued in fiscal 2000. While unit sales have been modest and prices remain relatively high for both digital-ready and high-definition TV, there is growing consumer interest in this new technology. The Company expects that selling prices will begin to moderate and digital programming will increase, generating additional demand for digital television. The Company believes digital television also represents a significant revenue opportunity in the coming year.

Sales of entertainment software, which includes recorded music and movies, computer software and video games, benefited from strong sales of compact disc (CD) and DVD titles. Sales of recorded music were driven by a higher demand for new releases and better in-stock levels of high-demand titles. The Company posted a second consecutive year of DVD movie comparable store sales gains of more than 100% due to consumers' rapid acceptance of the DVD format, a broader assortment of movie titles and improved retail execution. The Company's combined unit sales of CDs, DVDs and VHS movies exceeded 100 million units in fiscal 2000 for the first time ever. Computer software sales were impacted by a lack of new releases and declines in average selling prices. Video game sales were impacted by declines in average selling prices and product shortages; however, the launch of new technology could invigorate this category in the coming year.

The appliances product category was 8% of total sales in fiscal 2000, unchanged from fiscal 1999. Comparable store sales increases of appliances were better than the industry as a whole, driven by more effective promotions, improved in-stock levels and a broader assortment of products. However, there were fewer technological advancements in appliances compared with other product categories, resulting in a more moderate comparable store sales increase than the Company as a whole.

The "other" category, comprised of photographic products, furniture and PSPs, increased to 10% of sales in fiscal 2000 from 9% of sales in fiscal 1999. Increased popularity of digital cameras contributed to sales increases in this category, while generally higher unit sales of products led to increased sales of PSPs. Better merchandising of home office supplies also contributed to the overall sales gains in this category.

Components of Operating Income

The following table presents selected operating ratios as a percentage of revenues for each of the past three fiscal years.

	2000	1999	1998
Gross profit	**19.2%**	18.0%	15.7%
Selling, general and administrative expenses	**14.8%**	14.5%	13.7%
Operating income	**4.3%**	3.5%	2.0%

Gross profit was 19.2% of revenues in fiscal 2000, an improvement of 1.2% of sales over fiscal 1999. Gross profit margins improved by more than 5% of sales since fiscal 1997. The current-year increase resulted from higher product margins, a more profitable sales mix positively impacted by higher sales of PSPs and accessories, and an enhanced inventory assortment. Inventory turns continued to improve, reaching 7.2 turns in fiscal 2000, compared with 6.6 turns in fiscal 1999 and 5.6 turns in fiscal 1998. The increase in inventory turns resulted in lower markdowns, particularly during model transitions. Also, better execution at the retail stores improved inventory shrink as a percentage of revenues. The Company expects further improvement in gross profit margins in fiscal 2001, as it continues to benefit from a more profitable mix and product margin improvements due to programs initiated in the past few years. However, the Company anticipates the rate of gross profit margin improvement will be less than the significant increases seen over the past two years.

Gross profit margin improved to 18.0% in fiscal 1999 from 15.7% in fiscal 1998, mainly due to the impact of initiatives to generate a more profitable product assortment, increased inventory turns and improved advertising effectiveness. An increase in higher-margin PSP sales also contributed to the improvement.

Selling, general and administrative expenses (SG&A) increased to 14.8% of revenues in fiscal 2000, compared with 14.5% of revenues in fiscal 1999, as a result of increased spending on the Company's strategic initiatives and expenses related to the greater number of new store openings. Strategic initiatives in fiscal 2000 included the enhancement of operating systems and processes in the Company's Services division, which provides product installation and repair services. Other strategic initiatives included continued development of the Company's e-commerce business and development and refinement of the Company's retail store operating model. Personnel-related expenses rose due to an increase in the caliber and compensation of staff in the Company's retail stores to support the sales of more complex digital products. The more effective sales staff contributed to higher sales of accessories and PSPs. Additional payroll expenses also were incurred to hire and train store managers to support the 47 new stores added in fiscal 2000 and in preparation for the approximately 60 additional stores anticipated in fiscal 2001. Furthermore, the Company has increased its corporate staff to drive strategic initiatives, build the Company's e-commerce business and support the growing base of retail stores. Management believes that investing in strategic initiatives has

benefited the Company's operating model and has contributed to gross profit margin gains. SG&A as a percentage of gross margin, one measure of the return on the investment in SG&A, improved to 77% in fiscal 2000 compared with 81% in fiscal 1999. The returns on the increased investment in SG&A are also reflected in the improvement in operating income to 4.3% of revenues in fiscal 2000, from 3.5% in fiscal 1999.

The Company plans to continue to invest in strategic initiatives to improve profitability and increase shareholder value. Spending will likely increase as the Company incurs the costs associated with the further expansion of its retail store network, including entry into the metropolitan New York market. Higher SG&A spending also is expected due to the launch of the Company's expanded e-commerce business and related marketing expenses to generate awareness and drive customer traffic. The Company also will continue to invest in new information systems, its Services division and inventory management systems. Management expects the investment in SG&A will continue to be funded by the anticipated increase in gross profit margin.

The increase in SG&A as a percent of sales in fiscal 1999 compared with fiscal 1998 was due primarily to higher levels of compensation and professional services. Compensation increased due to a competitive labor market, a full year of the dedicated area in the retail stores designed to support sales of more complex products and expenses associated with an increased number of store openings. Additionally, professional service expenses were incurred for initiatives to improve operating performance and implement business process improvements, in addition to addressing Year 2000 system issues.

Net interest income improved nearly $23 million in fiscal 2000, as compared with fiscal 1999, due to higher cash balances, higher interest rates and lower levels of debt. Faster inventory turns and increased profitability enabled the Company to maintain its cash balances even with the repurchase of nearly $400 million of common stock in fiscal 2000.

The Company's effective income tax rate in fiscal 2000 was 38.3%, down slightly from 38.5% in fiscal 1999 and 38.6% in fiscal 1998. The Company's effective tax rate is impacted by changes in the taxability of investment income and state income tax rates.

Subsequent to year-end, the Company finalized a comprehensive strategic alliance with Microsoft Corp. The agreement encompasses significant co-marketing between the Microsoft Network of Internet Services (MSN™), BestBuy.com and Best Buy's retail stores, via direct marketing and advertising inserts. Microsoft will support BestBuy.com with prominent placement across Microsoft properties, including MSNBC, WebTV Network,™ the Expedia.com™ travel service, MSN Hotmail™ Web-based e-mail service and the MSN eShop online shopping service. In addition to Microsoft providing marketing and technology support to Best Buy, the agreement provides mutual financial benefits for both companies. In connection with the alliance, Microsoft purchased 3.9 million shares of Best Buy common stock for

$200 million.

Liquidity and Capital Resources

Record financial performance enabled the Company to internally fund its business expansion and repurchase approximately $400 million of the Company's common stock, while maintaining its liquidity and strong financial position. Cash flow from operations increased $98 million in fiscal 2000, to $760 million, driven by earnings growth and continued improvement in inventory management. Cash and cash equivalents totaled $751 million at the end of fiscal 2000, compared with $786 million at the end of fiscal 1999.

Inventories at the end of fiscal 2000 were $1.2 billion, up only 13% compared with one year ago, even with a 24% sales increase, due to faster inventory turns. The increase in inventories was fully funded by an increase in accounts payable.

Trade receivables, mainly credit card and vendor-related receivables, increased $57 million from one year ago. The increase was primarily due to higher business volumes resulting from a 25% increase in fourth-quarter sales and amounts due from ISP promotion subsidies. Receivables from sales on the Company's private-label credit card are sold to third parties, without recourse, and the Company does not bear any risk of loss with respect to these receivables.

Other assets increased $23 million, with $16 million resulting from the Company's strategic investments in other companies made as part of its overall plan to expand its e-commerce business. Acquisition of leasehold rights, the purchase of insurance policies in connection with the Company's deferred compensation plan as well as changes in deferred income taxes contributed to the net change in other assets.

Accounts payable and accrued liabilities increased compared with fiscal 1999, due to higher business volume. Accrued compensation and related liabilities increased versus one year ago as a result of expenses associated with the expanding employee base supporting the Company's growth. The increase in long-term liabilities was primarily due to the increase in long-term deferred compensation and a net increase in deferred revenue related to PSPs.

Debt declined $30 million in fiscal 2000 due to the repayment of an $18 million note and scheduled maturities of capital leases and other loans.

Capital spending in fiscal 2000 was $361 million, compared with $166 million and $72 million in fiscal 1999 and fiscal 1998, respectively. The Company expanded its store base by investing in 47 new stores and 13 remodeled or relocated stores during fiscal 2000, compared with 28 new stores and five remodeled or relocated stores in fiscal 1999, and 13 new stores and five remodeled or relocated stores in fiscal 1998.

The Company increased its expansion program in fiscal 1999 after the initiatives to improve operations resulted in an enhanced operating model and improved profitability. Capital spending in fiscal 2000 also included the initial development for some of the stores scheduled to open in fiscal 2001. Additionally, the Company expanded its corporate facilities to support the growth of the business, the most significant investment being the purchase of an additional office building to supplement the Company's corporate office. The Company also continued to invest in new systems and technology to better position it for continued growth and to generate improvements in its existing business.

The following table presents the number of stores, by prototype, operated by the Company at the end of the last three fiscal years.

Store Prototype	2000	1999	1998
28,000 square feet	**31**	43	48
36,000 square feet	**34**	34	34
45,000 square feet	**231**	182	150
58,000 square feet	**52**	52	52
Small-market stores (30,000 square feet)	**9**	—	—
Total number of stores at year-end	**357**	311	284
Average store size (in square feet)	**44,000**	43,700	43,200

Capital expenditures in fiscal 2001 are expected to approximate $600 million, exclusive of amounts to be expended on property development, to support accelerated store growth and the Company's strategic initiatives. Included in the approximately 60 stores scheduled to open in fiscal 2001 are approximately 12 small-market stores, which the Company introduced in fiscal 2000. In addition to the new stores, the Company plans to remodel or relocate about 10 stores. Also included in fiscal 2001 capital spending is the construction of the Company's seventh distribution center, a 650,000-square-foot facility in Dublin, Ga., and the initial land and construction costs for a new corporate office facility scheduled to open in fiscal 2002 that will replace existing owned and leased facilities. The Company also expects to continue to make significant investments in technology in support of its expanding and increasingly complex business operations.

The Company's practice has been to lease rather than own real estate; however, for those sites developed using working capital, the Company has historically sold and leased back those properties under long-term leases. The costs of development are classified as recoverable costs from developed properties and are included in current assets. Recoverable costs from developed properties at the end of fiscal 2000 was essentially unchanged from the prior year, but is expected to increase in fiscal 2001 consistent with the Company's store expansion plans. During fiscal 2000, the Company decided to continue to own, rather than sell and lease back, a recently constructed distribution center in Dinuba, Calif.

In October 1998 and September 1999, the Company's Board of Directors authorized repurchases of up to $100 million and $200 million, respectively, of the Company's common stock. These stock repurchase plans were completed with a total of 1.8 million and 3.8 million shares repurchased, respectively. In February 2000, the Company's Board of Directors authorized the repurchase of up to an additional $400 million of the Company's common stock from time to time through open market purchases. This plan has no stated expiration date. As of February 26, 2000, 1.9 million shares had been repurchased and retired under this plan at a cost of $100 million.

In August 1999, the Company entered into an unsecured $100 million revolving credit facility, replacing the $220 million facility that was scheduled to mature in June 2000. The Company was able to reduce the size of the facility due to improved operating performance and better inventory management. In addition, the new facility makes certain financial covenants less restrictive, thereby providing the Company with additional flexibility. The current facility is scheduled to mature in June 2002.

Management believes that funds from the expected results of operations and available cash and cash equivalents will be sufficient to finance the Company's anticipated expansion plans and strategic initiatives for the next year. The revolving credit facility and the Company's inventory financing program are also available for additional working capital needs or investment opportunities.

Quarterly Results and Seasonality

Similar to most retailers, the Company's business is seasonal. Revenues and earnings are typically greater during the second half of the fiscal year, which includes the holiday selling season. The timing of new store openings and general economic conditions may affect future quarterly results of the Company.

The following tables show selected unaudited quarterly operating results and high and low prices of the Company's common stock for each quarter of fiscal 2000 and 1999.

($ in thousands, except per share amounts)

Quarter	**1st**	**2nd**	**3rd**	**4th**
Fiscal 2000				
Revenues	**$ 2,385,431**	**$ 2,686,640**	**$ 3,107,337**	**$ 4,314,615**
Gross profit	**462,002**	**530,520**	**590,367**	**810,540**
Operating income	**71,701**	**89,606**	**122,588**	**255,364**
Net earnings	**46,809**	**58,067**	**78,389**	**163,805**
Diluted earnings per share	**.22**	**.27**	**.37**	**.78**
Fiscal 1999				
Revenues	$ 1,938,383	$ 2,177,766	$ 2,492,467	$ 3,456,030
Gross profit	348,938	405,991	444,215	615,379
Operating income	22,784	68,437	90,230	169,791
Net earnings	12,477	41,455	53,543	108,807
Diluted earnings per share	.06	.20	.25	.51

Common Stock Prices

Quarter	1st	2nd	3rd	4th
Fiscal 2000				
High	**$ 57.38**	**$ 80.50**	**$ 72.81**	**$ 67.00**
Low	**40.50**	**44.25**	**45.88**	**42.00**
Fiscal 1999				
High	$ 19.00	$ 27.41	$ 29.84	$ 49.00
Low	14.75	14.88	16.00	23.44

Best Buy's common stock is traded on the New York Stock Exchange, under the symbol BBY. As of March 31, 2000, there were 1,940 holders of record of Best Buy common stock. The Company has not historically paid, and has no current plans to pay, cash dividends on its common stock.

Safe Harbor Statement Under the Private Securities Litigation Reform Act

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their companies. With the exception of historical information, the matters discussed in this Annual Report are forward-looking statements and may be identified by the use of words such as "believe," "expect," "anticipate," "plan," "estimate," "intend" and "potential." Such statements reflect the current view of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. A variety of factors could cause the Company's actual results to differ materially from the anticipated results expressed in such forward-looking statements, including, among other things, general economic conditions, product availability, sales volumes, profit margins, and the impact of labor markets and new product introductions on the Company's overall profitability. Readers should refer to the Company's Current Report on Form 8-K filed on May 15, 1998, that describes additional important factors that could cause actual results to differ materially from those contemplated by the statements made in this Annual Report.

Consolidated Balance Sheets

$ in thousands, except per share amounts

	Feb. 26 2000	Feb. 27 1999
Assets		
Current Assets		
Cash and cash equivalents	**$ 750,723**	$ 785,777
Receivables	**189,301**	132,401
Recoverable costs from developed properties	**72,770**	73,956
Merchandise inventories	**1,183,681**	1,046,366
Other current assets	**41,985**	33,327
Total current assets	**2,238,460**	2,071,827
Property and Equipment		
Land and buildings	**76,228**	23,158
Leasehold improvements	**254,767**	174,495
Fixtures and equipment	**733,397**	505,232
Property under capital leases	**29,079**	29,079
	1,093,471	731,964
Less accumulated depreciation and amortization	**395,387**	308,324
Net property and equipment	**698,084**	423,640
Other Assets	**58,798**	36,156

Total Assets	**$**	**2,995,342**	$	2,531,623

See Notes to Consolidated Financial Statements.

		Feb. 26 2000		Feb. 27 1999
Liabilities and Shareholders' Equity				
Current Liabilities				
Accounts payable	**$**	**1,313,940**	$	1,011,746
Accrued compensation and related expenses		**102,065**		86,667
Accrued liabilities		**287,888**		234,364
Accrued income taxes		**65,366**		46,851
Current portion of long-term debt		**15,790**		30,088
Total current liabilities		**1,785,049**		1,409,716
Long-Term Liabilities		**99,448**		57,453
Long-Term Debt		**14,860**		30,509
Shareholders' Equity				
Preferred stock, $1.00 par value: Authorized—400,000 shares; Issued and outstanding—none		**—**		—
Common stock, $.10 par value: Authorized—400,000,000 shares; Issued and outstanding—200,379,000 and 203,621,000 shares, respectively		**20,038**		10,181
Additional paid-in capital		**247,490**		542,377
Retained earnings		**828,457**		481,387
Total shareholders' equity		**1,095,985**		1,033,945
Total Liabilities and Shareholders' Equity	**$**	**2,995,342**	$	2,531,623

Consolidated Statements of Earnings

$ in thousands, except per share amounts

For the Fiscal Years Ended		Feb. 26 2000		Feb. 27 1999		Feb. 28 1998
Revenues	**$**	**12,494,023**	$	10,064,646	$	8,337,762
Cost of goods sold		**10,100,594**		8,250,123		7,026,074
Gross profit		**2,393,429**		1,814,523		1,311,688
Selling, general and administrative expenses		**1,854,170**		1,463,281		1,145,280
Operating income		**539,259**		351,242		166,408
Net interest income (expense)		**23,311**		435		(33,005)

Earnings before income tax expense	**562,570**	351,677	133,403
Income tax expense	**215,500**	135,395	51,465
Net earnings	**$ 347,070**	$ 216,282	$ 81,938
Basic earnings per share	**$ 1.70**	$ 1.09	$ .47
Diluted earnings per share	**$ 1.63**	$ 1.03	$ .46
Basic weighted average common shares outstanding (000s)	**204,194**	199,185	175,416
Diluted weighted average common shares outstanding (000s)	**212,580**	210,006	200,251

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

$ in thousands

For the Fiscal Years Ended	**Feb. 26 2000**	**Feb. 27 1999**	**Feb. 28 1998**
Operating Activities			
Net earnings	**$ 347,070**	$ 216,282	$ 81,938
Depreciation, amortization and other non-cash charges	**109,541**	78,367	71,584
	456,611	294,649	153,522
Changes in operating assets and liabilities:			
Receivables	**(56,900)**	(36,699)	(16,121)
Merchandise inventories	**(137,315)**	14,422	71,271
Other assets	**(11,005)**	(4,251)	(3,278)
Accounts payable	**302,194**	249,094	147,340
Other liabilities	**108,829**	82,544	63,950
Accrued income taxes	**97,814**	62,672	33,759
Total cash provided by operating activities	**760,228**	662,431	450,443
Investing Activities			
Additions to property and equipment	**(361,024)**	(165,698)	(72,063)
(Increase) decrease in recoverable costs from developed properties	**(21,009)**	(65,741)	45,270
(Increase) decrease in other assets	**(18,081)**	(18,128)	4,494
Total cash used in investing activities	**(400,114)**	(249,567)	(22,299)
Financing Activities			
Long-term debt payments	**(29,946)**	(165,396)	(22,694)
Long-term debt borrowings	**—**	—	10,000
Issuance of common stock	**32,229**	20,644	14,869
Repurchase of common stock	**(397,451)**	(2,462)	—
Total cash (used in) provided by financing activities	**(395,168)**	(147,214)	2,175
(Decrease) Increase in Cash and Cash Equivalents	**(35,054)**	265,650	430,319
Cash and Cash Equivalents at Beginning of Period	**785,777**	520,127	89,808
Cash and Cash Equivalents at End of Period	**$ 750,723**	$ 785,777	$ 520,127

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Shareholders' Equity

$ in thousands

	Common Stock	Additional Paid-In Capital	Retained Earnings
Balances at March 1, 1997	$ 4,329	$ 241,300	$ 183,167
Stock options exercised	134	14,056	—
Tax benefit from stock options exercised	—	10,642	—
Conversion of preferred securities	—	146	—
Net earnings	—	—	81,938
Balances at February 28, 1998	4,463	266,144	265,105
Stock options exercised	199	21,381	—
Tax benefit from stock options exercised	—	40,428	—
Conversion of preferred securities	509	221,896	—
May 1998 two-for-one stock split	5,016	(5,016)	—
Repurchase of common stock	(6)	(2,456)	—
Net earnings	—	—	216,282
Balances at February 27, 1999	**10,181**	**542,377**	**481,387**
Stock options exercised	**408**	**32,713**	**—**
Tax benefit from stock options exercised	**—**	**79,300**	**—**
March 1999 two-for-one stock split	**10,190**	**(10,190)**	**—**
Repurchase of common stock	**(741)**	**(396,710)**	**—**
Net earnings	**—**	**—**	**347,070**
Balances at February 26, 2000	**$ 20,038**	**$ 247,490**	**$ 828,457**

See Notes to Consolidated Financial Statements.

Independent Auditor's Report

Shareholders and Board of Directors
Best Buy Co., Inc.

We have audited the accompanying consolidated balance sheets of Best Buy Co., Inc. as of February 26, 2000, and February 27, 1999, and the related consolidated statements of earnings, changes in shareholders' equity, and cash flows for each of the three years in the period ended February 26, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Best Buy Co., Inc. at February 26, 2000, and February 27, 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended February 26, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
March 28, 2000

Notes to Consolidated Financial Statements

$ in thousands, except per share amounts

1. Summary of Significant Accounting Policies

Description of Business

The Company currently operates in a single business segment, selling personal computers and other home office products, consumer electronics, entertainment software, major appliances and related accessories principally through its retail stores. Accordingly, additional disclosures under Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information*, are not required.

Basis of Presentation

The consolidated financial statements include the accounts of Best Buy Co., Inc. and its subsidiaries. Significant intercompany accounts and transactions have been eliminated.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated balance sheets and statements of earnings, as well as the disclosure of contingent liabilities. Actual results could differ from these estimates and assumptions.

Fiscal Year

The Company's fiscal year ends on the Saturday nearest the end of February.

Cash and Cash Equivalents

The Company considers short-term investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents are carried at cost, which approximates market value.

Recoverable Costs From Developed Properties

The costs of acquisition and development of properties which the Company intends to sell and lease back or recover from landlords within one year are included in current assets.

Merchandise Inventories

Merchandise inventories are recorded at the lower of average cost or market.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets or, in the case of leasehold improvements, over the shorter of the estimated useful lives or lease terms. The Company evaluates potential losses on impairment of long-lived assets used in operations on a location-by-location basis when indicators of impairment are present. A loss is recorded when an asset's carrying value exceeds the estimated undiscounted cash flows from the asset.

Stock Splits

The Company completed two-for-one stock splits effected in the form of 100% stock dividends distributed on March 18, 1999 and May 26, 1998. All share and per share information reflects these stock splits.

Revenue Recognition

The Company recognizes revenues from the sales of merchandise at the time the merchandise is sold. Service revenues are recognized at the time the service is provided.

The Company sells extended service contracts, called Performance Service Plans, on behalf of an unrelated third party. The Company recognizes net commission revenues for extended service contracts sold in states where the Company is deemed the obligor ratably over the terms of the service contracts, generally two to five years. The Company recognizes net commission revenues for extended service contracts sold in states where the Company is not deemed the obligor at the time of sale.

Pre-Opening Costs

In fiscal 1999, the Company adopted Statement of Position (SOP) 98-5, *Reporting on the Cost of Start-Up Activities.* The SOP requires the costs of start-up activities, including store opening costs, to be expensed as incurred. The Company historically deferred and amortized those costs over interim periods in the year the store opened. Annual results were not materially impacted by the adoption.

Advertising Costs

Advertising costs, included in selling, general and administrative expenses, are expensed as incurred.

Earnings per Share

Basic earnings per share is computed based on the weighted average number of common shares outstanding during each period. Diluted earnings per share includes the incremental shares assumed issued on the exercise of stock options. Convertible preferred securities were assumed to be converted into common stock and any related interest expense, net of income taxes, was added back to net earnings when the assumed conversion resulted in lower earnings per share.

Stock Options

The Company applies Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, in accounting for stock options and presents in Note 5 pro forma net earnings and earnings per share as if the Company had adopted SFAS No. 123, *Accounting for Stock-Based Compensation* .

Reclassifications

Certain previous-year amounts have been reclassified to conform to the current-year presentation. These reclassifications had no impact on net earnings or total shareholders' equity.

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2. Working Capital Financing

Credit Agreement

The Company has a credit agreement (the Agreement) that provides a bank revolving credit facility (the Facility) under which the Company can borrow up to $100,000. The Agreement expires on June 30, 2002. Borrowings under the Facility are unsecured. Interest on borrowings is at rates specified in the Agreement, as elected by the Company. The Company also pays certain commitment and agent fees.

The Agreement contains covenants that require maintenance of certain financial ratios, minimum consolidated net worth and limits owned real estate and capital expenditures. The Agreement also requires that the Company has no outstanding principal balance for a period not less than 30 consecutive days, net of cash and cash equivalents. There were no borrowings under the Facility during fiscal years 2000 or 1999.

Inventory Financing

The Company has a $200,000 inventory financing credit line, which increases to $325,000 on a seasonal basis. Borrowings are collateralized by a security interest in certain merchandise inventories approximating the outstanding borrowings. The terms of this arrangement allow the Company to extend the due dates of invoices beyond their normal terms. The amounts extended generally bear interest at a rate approximating the prime rate. No amounts were extended under this line in fiscal years 2000 or 1999. The line has provisions that give the financing source a portion of the cash discounts provided by the manufacturers.

3. Long-Term Debt

Capital Leases and Other Loans

As of February 26, 2000, long-term debt consisted of capital leases and other loans bearing interest at rates ranging from 5.25% to 9.41%. These obligations are secured by certain property and equipment with a net book value of $35,600 and $42,900 at February 26, 2000 and February 27, 1999, respectively.

During fiscal 2000, 1999 and 1998, interest paid (net of amounts capitalized) totaled $5,300, $23,800 and $37,700, respectively. The fair value of long-term debt approximates the carrying value.

During fiscal 2000, 1999 and 1998, interest expense totaled $5,100, $19,400 and $37,200, respectively, and is included in net interest income (expense).

The future maturities of long-term debt consist of the following:

Fiscal Year	Capital Leases	Other
2001	$ 7,631	$ 8,167
2002	18	4,251
2003	—	1,445
2004	—	895
2005	—	745
Thereafter	—	7,506
	7,649	$ 23,009
Less amount representing interest	8	
Minimum lease payments	$ 7,641	

Senior Subordinated Notes

On October 5, 1998, the Company prepaid its $150,000, 8 5/8 % Senior Subordinated Notes due October 1, 2000, at 102.5% of their par value. The prepayment premium of $3,750 and the write-off of the remaining deferred debt offering costs of approximately $1,100 were included in interest expense in fiscal 1999.

4. Convertible Preferred Securities of Subsidiary

In November 1994, the Company and Best Buy Capital, L.P., a special-purpose limited partnership in which the Company was the sole general partner, completed the public offering of 4.6 million convertible monthly income preferred securities with a liquidation preference of $50 per security. The securities were convertible into shares of the Company's common stock at the rate of 4.444 shares per security (equivalent to a conversion price of $11.25 per share). In April 1998, substantially all of the preferred securities were converted into approximately 20.4 million shares of common stock. The remaining preferred securities were redeemed in June 1998 for cash of $671.

5. Shareholders' Equity

Stock Options

The Company currently sponsors two non-qualified stock option plans for employees and one non-qualified stock option plan for directors. These plans provide for the issuance of up to 48.8 million shares. Options may be granted only to employees or directors at option prices not less than the fair market value of the Company's common stock on the date of the grant. In addition, two plans expired in fiscal 1998 that still have outstanding options. At February 26, 2000, options to purchase 17.0 million shares were outstanding under all of these plans.

As permitted by SFAS No. 123, the Company has elected to account for its stock option plans under the provisions of APB Opinion No. 25. Accordingly, no compensation cost has generally been recognized for stock options granted. Had the Company adopted SFAS No. 123, the pro forma effects on net earnings, basic earnings per share and diluted earnings per share would have been as follows:

	2000	1999	1998
Net Earnings			
As reported	**$ 347,070**	$ 216,282	$ 81,938
Pro forma	**321,881**	201,257	76,099
Basic Earnings per Share			
As reported	**$ 1.70**	$ 1.09	$ .47
Pro forma	**1.58**	1.01	.43
Diluted Earnings per Share			
As reported	**$ 1.63**	$ 1.03	$ .46
Pro forma	**1.52**	.96	.43

The fair value of each option was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	2000	1999	1998
Risk-free interest rate	**6.4%**	5.6%	6.8%
Expected dividend yield	**0%**	0%	0%
Expected stock price volatility	**50%**	50%	60%
Expected life of options	**4.5 years**	4.9 years	4.2 years

The weighted average fair value of options granted during fiscal 2000, 1999 and 1998 used in computing pro forma compensation expense was $25.59, $8.58 and $1.74 per share, respectively.

Option activity for the last three fiscal years was as follows:

	Shares	Weighted Average Exercise Price per Share
Outstanding March 1, 1997	16,900,000	$ 3.54
Granted	7,720,000	3.24
Exercised	(5,356,000)	2.78
Canceled	(2,520,000)	3.44
Outstanding February 28, 1998	16,744,000	3.66
Granted	9,423,000	17.27
Exercised	(4,909,000)	4.56
Canceled	(2,119,000)	9.74
Outstanding February 27, 1999	19,139,000	9.46
Granted	3,040,000	51.97
Exercised	(4,172,000)	7.75
Canceled	(961,000)	19.48
Outstanding February 26, 2000	17,046,000	16.89

Exercisable options at the end of fiscal 2000, 1999 and 1998 were 4.6 million, 5.0 million and 4.7 million, respectively. The following table summarizes information concerning options outstanding and exercisable as of February 26, 2000:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0 to $10	7,486,000	4.63	$ 3.06	3,515,000	$ 3.04
$ 10 to $20	6,567,000	8.16	17.18	1,017,000	17.16
$ 20 to $30	107,000	8.62	24.03	20,000	24.35
$ 30 to $40	33,000	8.86	32.03	8,000	32.03
$ 40 to $50	190,000	9.17	47.04	14,000	45.99
$ 50 to $60	2,631,000	9.15	52.25	51,000	52.58
$ 60 to $70	15,000	9.49	65.52	—	—
$ 70 to $80	17,000	9.48	73.27	—	—
$ 0 to $80	17,046,000	6.78	$ 16.89	4,625,000	$ 6.96

Earnings per Share

The following table presents a reconciliation of the numerators and denominators of basic and diluted earnings per common share for fiscal 2000, 1999 and 1998:

	2000	1999	1998
Numerator:			
Net earnings	**$ 347,070**	$ 216,282	$ 81,938
Interest on preferred securities, net of tax	**—**	771	9,179
Net earnings assuming dilution	**$ 347,070**	$ 217,053	$ 91,117
Denominator (000s):			
Weighted average common shares outstanding	**204,194**	199,185	175,416
Effect of dilutive securities:			
Employee stock options	**8,386**	8,726	4,404
Preferred securities	**—**	2,095	20,431
Weighted average common shares outstanding assuming dilution	**212,580**	210,006	200,251
Basic earnings per share	**$ 1.70**	$ 1.09	$ .47
Diluted earnings per share	**$ 1.63**	$ 1.03	$ .46

Repurchase of Common Stock

In October 1998 and September 1999, the Company's Board of Directors authorized the purchases of up to $100,000 and $200,000, respectively, of the Company's common stock. These plans were completed with a total of 1.8 million and 3.8 million shares purchased and retired, respectively.

In February 2000, the Company's Board of Directors authorized the purchase of up to $400,000 of the Company's common stock from time to time through open market purchases. This plan has no stated expiration date. As of February 26, 2000, 1.9 million shares were purchased and retired at a cost of $100,000.

Other

Subsequent to year-end, the Company finalized a comprehensive strategic alliance with Microsoft Corp. In connection with the alliance, Microsoft purchased 3.9 million shares of the Company's common stock for $200,000.

6. Operating Lease Commitments and Related-Party Transactions

The Company currently owns the majority of its corporate headquarters facilities and conducts essentially all of its retail and the majority of its distribution operations from leased locations. Transaction costs associated with the sale and leaseback of properties and any gain or loss are recognized over the terms of the lease agreements. Proceeds from the sale and leaseback of properties are included in the net change in recoverable costs from developed properties. In addition to rent, the leases require payment of real estate taxes, insurance and common area maintenance. Most of the leases contain renewal options and escalation clauses, and several require contingent rents based on specified percentages of sales. Certain leases also contain covenants related to maintenance of financial ratios. The Company also leases various equipment under operating leases.

The composition of total rental expenses for all operating leases during the past three fiscal years, including leases of buildings and equipment, was as follows:

	2000	1999	1998
Minimum rentals	**$ 227,500**	$ 186,100	$ 161,500
Percentage rentals	**500**	500	400
	$ 228,000	$ 186,600	$ 161,900

As of February 26, 2000, three stores were leased from the Company's CEO and principal shareholder, or partnerships in which he is a partner. Rent under these leases during the past three fiscal years and one additional store, leased from his spouse, for which the lease expired in January 1998, was as follows:

	2000	1999	1998
Minimum rentals	**$ 1,000**	$ 800	$ 900
Percentage rentals	**300**	400	400
	$ 1,300	$ 1,200	$ 1,300

Future minimum lease obligations by year (not including percentage rentals) for all operating leases at February 26, 2000, were as follows:

Fiscal Year	
2001	$ 243,000
2002	237,000
2003	219,000
2004	208,000
2005	208,000
Thereafter	1,792,000

7. Benefit Plans

The Company has a retirement savings plan for employees meeting certain age and service requirements. The plan provides for a Company-matching contribution, which is subject to annual approval by the Company's Board of Directors. The matching contribution was $4,600, $3,100 and $2,100 in fiscal 2000, 1999 and 1998, respectively.

The Company also has a deferred compensation plan for certain management employees. The liability for compensation deferred under this plan was $18,900 and $8,400 at February 26, 2000 and February 27, 1999, respectively, and is included in long-term liabilities. The Company has elected to match its liability under the plan through the purchase of life insurance. The cash value of the insurance, which includes funding for future deferrals, was $26,500 and $14,200 in fiscal 2000 and 1999, respectively, and is included in other assets. Both the asset and the liability are carried at market value.

8. Income Taxes

The following is a reconciliation of income tax expense to the federal statutory tax rate:

	2000	1999	1998
Federal income tax at the statutory rate	**$ 196,899**	$ 123,087	$ 46,691
State income taxes, net of federal benefit	**22,503**	14,206	4,986
Tax-exempt interest	**(5,592)**	(3,232)	(1,038)
Other	**1,690**	1,334	826
Income tax expense	**$ 215,500**	$ 135,395	$ 51,465
Effective tax rate	**38.3%**	38.5%	38.6%

Income tax expense consists of the following:

	2000	1999	1998
Current: Federal	**$ 164,938**	$ 120,892	$ 50,950
State	**21,329**	15,252	5,487
	186,267	136,144	56,437
Deferred: Federal	**25,725**	(665)	(4,509)
State	**3,508**	(84)	(463)
	29,233	(749)	(4,972)
Income tax expense	**$ 215,500**	$ 135,395	$ 51,465

Deferred taxes are the result of differences between the basis of assets and liabilities for financial reporting and income tax purposes. Significant deferred tax assets and liabilities consist of the following:

	Feb. 26 2000	Feb. 27 1999
Accrued expenses	**$ 19,001**	$ 15,690
Deferred revenues	**25,009**	23,284
Compensation and benefits	**17,293**	8,052
Other	**2,763**	4,608
Total deferred tax assets	**64,066**	51,634
Property and equipment	**42,937**	10,973
Inventory	**15,639**	2,215
Other	**4,606**	3,603
Total deferred tax liabilities	**63,182**	16,791
Net deferred tax assets	**$ 884**	$ 34,843

Income taxes paid (net of refunds) were $82,600, $84,000 and $12,700 in fiscal 2000, 1999 and 1998, respectively.

9. Legal Proceedings

The Company is involved in various legal proceedings arising during the normal course of conducting business. Management believes that the resolution of these proceedings will not have any material adverse impact on the Company's consolidated financial statements.

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 21.1

**BEST BUY CO., INC.
SUBIDIARIES OF THE REGISTRANT**

	State of Formation
BBC Property Co.	Minnesota
BBC Investment Co.	Nevada
Best Buy Concepts, Inc.	Nevada
Best Buy Stores, L.P.	Delaware
Best Buy Online, Inc.	Minnesota
BestBuy.com, Inc.	Delaware

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 23.1

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statements on Form S-8 pertaining to the Deferred Compensation Plan (Nos. 333-49371 and 333-80967), the 1997 Directors' Non-Qualified Stock Option Plan (No. 333-39531), the 1997 Employee Non-Qualified Stock Option Plan (Nos. 333-39533 and 333-61897), the 1987 Employee Non-Qualified Stock Option Plan (No. 33-54875), the 1994 Full-Time Employee Non-Qualified Stock Option Plan (No. 33-54871), and the 1987 Directors' Non-Qualified Stock Option Plan (No. 33-54873) of Best Buy Co., Inc. of our report dated March 28, 2000, with respect to the consolidated financial statements of Best Buy Co., Inc. incorporated by reference in the Annual Report (Form 10-K) for the year ended February 26, 2000.

/s/ Ernst & Young LLP

Minneapolis, Minnesota
May 24, 2000

Consent of Independent Auditors

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIODS INDICATED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

RESTATED:

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	FEB 26 2000
PERIOD START	FEB 28 1999
PERIOD END	FEB 26 2000
CASH	750,723
SECURITIES	0
RECEIVABLES	189,301
ALLOWANCES	0
INVENTORY	1,183,681
CURRENT ASSETS	2,238,460
PP&E	1,093,471
DEPRECIATION	395,387
TOTAL ASSETS	2,995,342
CURRENT LIABILITIES	1,785,049
BONDS	14,860
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	20,038
OTHER SE	1,075,947
TOTAL LIABILITY AND EQUITY	2,995,342
SALES	12,494,023
TOTAL REVENUES	12,494,023
CGS	10,100,594
TOTAL COSTS	10,100,594
OTHER EXPENSES	1,854,170
LOSS PROVISION	0
INTEREST EXPENSE	(23,311)
INCOME PRETAX	562,570
INCOME TAX	215,500
INCOME CONTINUING	347,070
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	347,070
EPS BASIC	1.70
EPS DILUTED	1.63

End of Filing